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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K
FOR ANNUAL AND TRANSITION REPORTS PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

(Mark One)

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2004

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number 1-7182

Merrill Lynch & Co., Inc.
(Exact name of Registrant as specified in its charter)

Delaware **(State or other jurisdiction of incorporation or organization)**	**13-2740599** **(I.R.S. Employer Identification No.)**
4 World Financial Center, New York, New York **(Address of principal executive offices)**	**10080** **(Zip Code)**

Registrant's telephone number, including area code: (212) 449-1000

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value $1.33 1/3 and attached Rights to Purchase Series A Junior Preferred Stock	New York Stock Exchange; Chicago Stock Exchange; Pacific Exchange; Euronext Paris S.A.; London Stock Exchange; and Tokyo Stock Exchange
Depositary Shares representing 1/1200th share of Floating Rate Non-Cumulative Preferred Stock, Series 1; Depositary Shares representing 1/1200th share of Floating Rate Non-Cumulative Preferred Stock, Series 2; S&P 500® Market Indexed Target-Term Securities ® (MITTS® Securities) due September 28, 2005; Top Ten Yield MITTS Securities due August 15, 2006; and S&P 500 Inflation Adjusted MITTS Securities due September 24, 2007	New York Stock Exchange

See the full list of securities listed on the American Stock Exchange on the pages directly following this cover.

Securities registered pursuant to Section 12(g) of the Act:

See the full list of securities registered pursuant to Section 12(g) of the Act on the pages directly following this cover.

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes ☒ No ☐

As of the close of business on June 25, 2004, the aggregate market value of the voting stock, comprising the Common Stock and the Exchangeable Shares, held by non-affiliates of the Registrant was approximately $51.3 billion.

As of the close of business on February 22, 2005, there were 954,308,833 shares of Common Stock and 2,778,854 Exchangeable Shares outstanding. The Exchangeable Shares, which were issued by Merrill Lynch & Co., Canada Ltd. in connection with the merger with Midland Walwyn Inc., are exchangeable at any time into Common Stock on a one-for-one basis and entitle holders to dividend, voting and other rights equivalent to Common Stock.

Documents Incorporated By Reference: Portions of the Merrill Lynch 2004 Annual Report to Shareholders are incorporated by reference in this Form 10-K in response to Parts I, II, III and IV. Portions of the Merrill Lynch Proxy Statement, dated March 15, 2005, for its 2005 Annual Meeting of Shareholders to be held April 22, 2005 are incorporated by reference in this Form 10-K in response to Part III.

Securities registered pursuant to Section 12(b) of the Act and listed on the American Stock Exchange are as follows:

MITTS Securities based upon the Russell 2000® Index due March 30, 2009; Nikkei® 225 Securities due March 30, 2009; S&P 500 MITTS Securities due June 29, 2009; MITTS Securities based upon the Dow Jones Industrial Average℠ due August 7, 2009; S&P 500 MITTS Securities due September 4, 2009; MITTS Securities Linked to the USD/ EUR Exchange Rate due September 13, 2005; S&P 500 MITTS Securities due July 1, 2005; Nikkei 225 MITTS Securities due September 21, 2005; Energy Select Sector SPDR® Fund MITTS Securities due February 21, 2006; EuroFund MITTS Securities due February 28, 2006; S&P 500 MITTS Securities due March 27, 2006; Consumer Staples Select Sector SPDR Fund MITTS Securities due April 19, 2006; Select Sector SPDR Fund Growth Portfolio MITTS Securities due May 25, 2006; Major 11 International MITTS Securities due May 26, 2006; MITTS Securities based upon the Dow Jones Industrial Average due June 26, 2006; Russell 2000 MITTS Securities due July 21, 2006; Nikkei 225 MITTS Securities due August 4, 2006; S&P 500 MITTS Securities due August 4, 2006; Energy Select Sector SPDR Fund MITTS Securities due September 20, 2006; Medium-Term Notes, Series B, 1% Callable and Exchangeable Stock-Linked Notes due February 8, 2006; Medium-Term Notes, Series B, 0.25% Callable and Exchangeable Stock-Linked Notes due May 10, 2006; Medium-Term Notes, Series B, 1% Callable and Exchangeable Stock-Linked Notes due July 20, 2006; Telebrás Indexed Callable Protected Growth Securities (ProGroS® Securities) due May 19, 2005; 1% Convertible Securities Exchangeable into McDonald's Corporation common stock due May 28, 2009; Callable MITTS Securities due October 5, 2007 based upon Semiconductor HOLDRS®; Callable MITTS Securities due September 13, 2007 based upon Broadband HOLDRS; Callable Nasdaq-100® MITTS Securities due August 3, 2007; Callable MITTS Securities due May 4, 2009 Linked to the S&P 500 Index; Callable MITTS Securities due May 4, 2009 Linked to the Amex Biotechnology Index; Callable MITTS Securities due June 1, 2009 Linked to the Amex Defense Index; Callable MITTS Securities due August 3, 2007 based upon Biotech HOLDRS; Medium-Term Notes, Series B, 2% Callable and Exchangeable Stock-Linked Notes due July 26, 2005 (Linked to the performance of the common stock of Johnson & Johnson); Medium-Term Notes, Series B, Nikkei 225 MITTS Securities due March 30, 2007; Callable MITTS Securities due March 5, 2007 based upon Internet HOLDRS; Medium-Term Notes, Series B, 0.25% Callable and Exchangeable Stock-Linked Notes due January 7, 2008 (Linked to the performance of Wells Fargo & Company); Nikkei 225 MITTS Securities due June 27, 2007; Strategic Return Notes® Linked to the Industrial 15 Index due February 1, 2007; Strategic Return Notes Linked to the Biotech-Pharmaceutical Index due February 8, 2007; Strategic Return Notes Linked to the Select Ten Index due March 1, 2007; Strategic Return Notes Linked to the Oil and Natural Gas Index due March 28, 2007; Strategic Return Notes Linked to the Industrial 15 Index due May 3, 2007; Strategic Return Notes Linked to the Select Ten Index due May 3, 2007; Strategic Return Notes Linked to the Select European 50 Index due June 11, 2007; Strategic Return Notes Linked to the Select Ten Index due June 28, 2007; Strategic Return Notes Linked to the Industrial 15 Index due August 30, 2007; Strategic Return Notes Linked to the Select Ten Index due October 25, 2007; Strategic Return Notes Linked to the Biotech-Pharmaceutical Index due November 1, 2007; Strategic Return Notes Linked to the Select Ten Index due May 30, 2006; Strategic Return Notes Linked to the Industrial 15 Index due June 26, 2006; Strategic Return Notes Linked to the Institutional Holdings Index due June 28, 2006; Strategic Return Notes Linked to the Select Ten Index due July 31, 2006; Strategic Return Notes Linked to the Select Ten Index due November 2, 2006; Convertible Securities Exchangeable into Exxon Mobil Corporation Common Stock due October 3, 2008; Convertible Securities Exchangeable into The Coca-Cola Company Common Stock due September 30, 2008; Strategic Return Notes Linked to the Select Utility Index due February 25, 2009; 7% Callable STock Return Income DEbt Securities due May 11, 2005, payable at maturity with Yahoo Inc. common stock; 8% Callable STock Return Income DEbt Securities due July 5, 2005, payable at maturity with American Depositary Receipts representing Sony Corporation common stock; Accelerated Return Notes Linked to the Dow Jones Industrial Average due January 30, 2006; and Strategic Return Notes Linked to the Select Utility Index due September 28, 2009.

Securities registered pursuant to Section 12(g) of the Act are as follows:

S&P 500 MITTS Securities due June 29, 2007; S&P 500 MITTS Securities due November 20, 2007; S&P 500 MITTS Securities due August 29, 2008; MITTS Securities based upon the Dow Jones Industrial Average due September 29, 2008; MITTS Securities based upon the Dow Jones Industrial Average due January 16, 2009; Market Recovery Notes Linked to the Nasdaq-100 Index; Strategic Return Notes Linked to the Select Ten Index due February 28, 2008; S&P 500 MITTS Securities due June 3, 2010; S&P 500 MITTS Securities due September 3, 2008; S&P 500 MITTS Securities due August 5, 2010; Dow Jones Industrial Average MITTS Securities due December 27, 2010; Nikkei 225 MITTS Securities due March 8, 2011; Nikkei 225 MITTS Securities due September 30, 2010; Strategic Return Notes Linked to the Select Ten Index due June 27, 2008; Strategic Return Notes Linked to the Industrial 15 Index due October 31, 2008; Strategic Return Notes Linked to the Select Ten Index due September 30, 2008; Strategic Return Notes Linked to the Industrial 15 Index due August 5, 2008; Strategic Return Notes Linked to the Select Ten Index due March 2, 2009; Accelerated Return Notes Linked to the S&P 500 Index due May 2, 2005; 6% Callable STock Return Income DEbt Securities due March 28, 2005, payable at maturity with Merck & Co., Inc. common stock; 8% Callable STock Return Income DEbt Securities due April 5, 2005, payable at maturity with Comcast Corporation Class A common stock; 9% Callable STock Return Income DEbt Securities due April 29, 2005, payable at maturity with Best Buy Co., Inc. common stock; 9% Callable STock Return Income DEbt Securities due May 9, 2005, payable at maturity with Nextel Communications, Inc. Class A common stock; 6.5% Callable STock Return Income DEbt Securities due July 5, 2005, payable at maturity with Intuit Inc. common stock; 9% Callable STock Return Income DEbt Securities due August 1, 2005, payable at maturity with Brocade Communications Systems common stock; 6% Callable STock Return Income DEbt Securities due August 18, 2005, payable at maturity with The Walt Disney Company common stock; 7% Callable STock Return Income DEbt Securities due December 22, 2005 payable at maturity with EMC Corporation common stock; 97% Protected Notes Linked to the performance of the Dow Jones Industrial Average due March 28, 2011; Long Short Notes Linked to the DJIA/ NASDAQ-100 Long Short Index due April 6, 2005; Accelerated Return Notes Linked to the Nikkei 225 Index due June 16, 2005; 97% Protected Notes Linked to the Dow Jones Industrial Average due March 28, 2011; Strategic Return Notes Linked to the Select 10 Index due March 2, 2009; Strategic Return Notes Linked to the Industrial 15 Index due March 30, 2009; Accelerated Return Notes Linked to the Nikkei 225 Index due July 11, 2005; 97% Protected Notes Linked to Global Equity Basket due February 14, 2012; Accelerated Return Notes Linked to S&P 500 Index due January 27, 2006; Accelerated Return Notes Linked to Global Equity Basket due August 1, 2005; Strategic Return Notes Linked to the Select 10 Index due June 4, 2009; Accelerated Return Notes Linked to the Nasdaq-100 Index due January 30, 2006; Medium-Term Notes, Series C, S&P 500 MITTS Securities due August 31, 2011; Accelerated Return Notes Linked to the Russell 2000 Index due October 31, 2005; and Medium-Term Notes, Series C, Accelerated Return Notes Linked to the Russell 2000 Index due June 30, 2006.

MERRILL LYNCH & CO., INC. ANNUAL REPORT ON FORM 10-K

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004

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Forward-Looking Statements

Certain statements in this Report may be considered forward-looking, including those about management expectations, strategic objectives, growth opportunities, business prospects, anticipated financial results, the impact of off balance sheet arrangements, significant contractual obligations, anticipated results of litigation and regulatory investigations and proceedings, and other similar matters. These forward-looking statements represent only Merrill Lynch's beliefs regarding future performance, which is inherently uncertain. There are a variety of factors, many of which are beyond Merrill Lynch's control, which affect its operations, performance, business strategy and results and could cause its actual results and experience to differ materially from the expectations and objectives expressed in any forward-looking statements. These factors include, but are not limited to, actions and initiatives taken by both current and potential competitors, general economic conditions, the effects of current, pending and future legislation, regulation and regulatory actions, and the other risks and uncertainties detailed in Management's Discussion and Analysis in the 2004 Annual Report to Shareholders and throughout this Report. Accordingly, readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the dates on which they are made. Merrill Lynch does not undertake to update forward-looking statements to reflect the impact of circumstances or events that arise after the dates they are made. The reader should, however, consult further disclosures Merrill Lynch may make in future filings of its Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K.

PART I

ITEM 1. BUSINESS

Overview

Merrill Lynch & Co., Inc.,[1] a Delaware corporation formed in 1973, is a holding company that, through its subsidiaries and affiliates, provides broker-dealer, investment banking, financing, wealth management, advisory, asset management, insurance, lending and related products and services on a global basis. These products and services include:

- securities brokerage, trading and underwriting;
- investment banking, strategic advisory services (including mergers and acquisitions) and other corporate finance activities;
- wealth management products and services, including financial, retirement and generational planning;
- asset management and investment advisory and related record keeping services;
- origination, brokerage, dealer and related activities in swaps, options, forwards, exchange-traded futures, other derivatives, commodities and foreign exchange products;
- securities clearance, settlement financing services and prime brokerage;
- equity, debt, foreign exchange and economic research;
- private equity and other principal investing activities;
- banking, trust and lending services, including deposit taking, consumer and commercial lending, including mortgage loans, and related services; and
- insurance and annuities sales and annuity underwriting services.

Merrill Lynch provides these products and services to a wide array of clients, including individual investors, small and large businesses, public companies, financial institutions, governments and government agencies.

Merrill Lynch reports its results in three business segments: the Global Markets and Investment Banking group (“GMI”), Global Private Client (“GPC”), and Merrill Lynch Investment Managers (“MLIM”).

Merrill Lynch conducts business from various locations throughout the world. Merrill Lynch’s world headquarters is located at the World Financial Center in New York City, and its other principal United States business and operational centers are located in New Jersey and Florida. Merrill Lynch’s operations outside the United States are organized into four geographic regions: Europe, Middle East, and Africa (“EMEA”); Pacific Rim; Canada; and Latin America. Merrill Lynch has a presence in 35 countries outside the United States, including offices in the following cities: Buenos Aires, Beijing, Dubai, Dublin, Frankfurt, Geneva, Hong Kong, Johannesburg, London, Madrid, Melbourne, Mexico City, Milan, Paris, Sao Paulo, Singapore, Sydney, Tokyo, Toronto and Zurich.

Merrill Lynch’s *Management’s Discussion and Analysis* and *Consolidated Financial Statements* and the *Notes* thereto in the Merrill Lynch 2004 Annual Report to Shareholders (“2004 Annual Report”) include:

- financial information concerning Merrill Lynch for each of the three fiscal years ended on the last Friday in December 2004, 2003 and 2002;
- a description of the principal sources of consolidated net revenues;
- the amount of total net revenues contributed by classes of similar services that accounted for 10% or more of consolidated net revenues in each of the three fiscal years ended on the last Friday in December 2004, 2003 and 2002; and
- information with respect to Merrill Lynch’s business segments, business activities, services and the geographic markets within which Merrill Lynch operates.

Management’s Discussion and Analysis and *Consolidated Financial Statements* and the *Notes* thereto are included as Exhibit 13 to this Report.

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1 Unless the context otherwise requires, the term “Merrill Lynch” means Merrill Lynch & Co., Inc. and its consolidated subsidiaries. The term “ML & Co.” is used herein where appropriate to refer solely to Merrill Lynch & Co., Inc., the parent holding company.

Merrill Lynch employed approximately 50,600[2] people and total client assets were approximately $1.6 trillion at the end of 2004.

Available Information

ML & Co. files annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). You may read and copy any document we file with the SEC at the SEC's Public Reference Room at 450 Fifth Street, NW, Washington, DC 20549. Please call the SEC at 1-800-SEC-0330 for information on the Public Reference Room. The SEC maintains an internet site that contains annual, quarterly and current reports, proxy and information statements and other information that issuers (including Merrill Lynch) file electronically with the SEC. The SEC's internet site is www.sec.gov.

ML & Co.'s internet address is www.ml.com. ML & Co. makes available, free of charge, our proxy statements, Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934. In addition, our website includes information concerning beneficial ownership of our equity securities by our executive officers and directors. Investors can find this information under "SEC Reports" through the investor relations section of our website which can be accessed directly at www.ir.ml.com. These reports are available through our website as soon as reasonably practicable after such reports are electronically filed with, or furnished to, the SEC. Additionally, Merrill Lynch's Guidelines for Business Conduct, Code of Ethics for Financial Professionals and charters for the committees of our Board of Directors have been filed as exhibits to SEC reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934. These documents, along with Merrill Lynch's Corporate Governance Guidelines, are also available on the investor relations section of our website. The information on Merrill Lynch's websites is not incorporated by reference into this Report. Shareholders may obtain copies of these reports and documents, free of charge, upon written request to Judith A. Witterschein, Corporate Secretary, Merrill Lynch & Co., Inc., 222 Broadway, 17th Floor, New York, NY 10038 or by email at corporate_secretary@ml.com.

Business Condition and Environment

The financial services industry, in which Merrill Lynch is a leading participant, is extremely competitive and highly regulated. This industry and the global financial markets are influenced by numerous unpredictable factors. These factors include economic conditions, monetary and fiscal policies, the liquidity of global markets, international and regional political events, acts of war or terrorism, changes in applicable laws and regulations, the competitive environment and investor sentiment. In addition to these factors, Merrill Lynch and other financial services companies may be affected by regulatory and legislative initiatives that may impact the conduct of their business, including increased regulation, and by the outcome of legal and regulatory investigations and proceedings, including those described under *Legal Proceedings* in Part I, Item 3 of this Report. These factors can significantly affect the volatility of the financial markets. As a result, volumes, revenues and net earnings may vary significantly from period to period in our industry, particularly affecting businesses such as brokerage, trading, investment banking, commercial banking, wealth management and asset management.

The financial services industry continues to be affected by an intensifying competitive environment, as demonstrated by consolidation through mergers, competition from new and established competitors and diminishing margins in many mature products and services. Commercial and investment bank consolidations have also increased the competition for investment banking and capital markets business, due in part to the extension of credit in conjunction with investment banking and capital raising activities.

The financial services industry is also impacted by the regulatory and legislative environment. In 2004, additional aspects of the Sarbanes-Oxley Act of 2002 were implemented as rules relating to internal control over financial reporting and current reporting requirements became effective and/or were adopted in their final form. The SEC also adopted rules and/or rule amendments that establish a voluntary, alternative method of computing deductions to net capital for certain broker-dealers, and registration requirements for advisors to certain private investment pools, and it proposed rules that would modify the offering process for securities. Various federal and state securities regulators, self-regulatory organizations (including the New York Stock Exchange and the National Association of Securities Dealers) and industry participants also continued to review and, in many cases, adopt changes to their established rules and policies in areas such as corporate governance, research analyst conflicts of interest and qualifications, practices related to the initial public offering of equity securities, mutual fund trading, disclosure practices and auditor independence. Changing requirements for research may continue to affect the cost structure for such

2 Excludes 100 full-time employees on salary continuation severance at year-end 2004.

services. Both inside and outside the United States, there is continued focus by regulators and legislators on regulatory supervision of both commercial and investment banks as an industry and on an individual basis, especially in the areas of capital and risk management, and anti-money laundering.

Description of Business Activities

Merrill Lynch's business activities are grouped into three business segments: GMI, GPC and MLIM. GMI provides capital markets and investment banking products and services to corporate, institutional and government clients around the world. GPC provides wealth management products and services globally to individuals, small- to mid-size businesses and employee benefit plans. MLIM manages financial assets for individual, institutional and corporate clients. Merrill Lynch's Wealth Management Group enhances the linkage between GPC's individual wealth business activities and related MLIM asset management business activities. Our business activities are conducted through numerous U.S. and non-U.S. entities, including the following principal subsidiaries:

- Merrill Lynch, Pierce, Fenner & Smith Incorporated
- Merrill Lynch International
- Merrill Lynch Government Securities Inc.
- Merrill Lynch Capital Services, Inc.
- Merrill Lynch Investment Managers, L.P.
- Merrill Lynch Investment Managers Limited
- Merrill Lynch Bank USA
- Merrill Lynch Bank & Trust Co.
- Merrill Lynch International Bank Limited
- Merrill Lynch Capital Markets Bank Limited
- Merrill Lynch Mortgage Capital Inc.
- Merrill Lynch Japan Securities Co., Ltd.
- Merrill Lynch Life Insurance Company
- ML Life Insurance Company of New York
- Merrill Lynch Derivative Products, AG
- ML IBK Positions Inc.

GLOBAL MARKETS AND INVESTMENT BANKING ("GMI")

GMI provides equity, debt and commodities trading, capital markets services, investment banking and strategic merger and acquisition advisory services to issuer and investor clients around the world. These business activities are conducted through a network of subsidiaries located inside and outside the United States, including Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLPF&S") and Merrill Lynch International ("MLI"). GMI provides issuer clients with services to help them raise capital through securities underwritings, private placements and loan syndications. It also makes a market in securities, derivatives, currencies and other financial instruments to satisfy client demand for these instruments, and for proprietary trading activities. Merrill Lynch has one of the largest equity trading and underwriting operations in the world and is a leader in the origination and distribution of equity products. GMI is also a leader in the global origination and distribution of fixed income products and provides clients with financing, securities clearing, settlement and custody services. In 2004, GMI continued to invest in strategic growth opportunities including commodities, commercial and residential mortgages, equity derivatives, portfolio trading, prime brokerage, secured financing, municipal bond trading and foreign exchange, all of which are anticipated to be continued focus areas in 2005.

The Global Markets division combines the debt, equity and commodities sales and trading activities for investor clients, while the Investment Banking division provides a wide range of origination and strategic advisory services for issuer clients.

GMI's Global Markets structure includes the following businesses:

- Global Principal Investments, Secured Finance and Real Estate Group — responsible on a global basis for asset-based lending, securitization and secured commercial real estate lending, collateralized mortgage obligations trading, as well as equity investments in real estate and other secured assets;

- Global Rates Group — responsible on a global basis for interest rate derivatives, complex options, commodity derivatives, United States government and other Federal agency securities, obligations of other sovereigns, municipal securities, pass-through mortgage obligations trading, and debt financial futures and options;
- Foreign Exchange Group — responsible on a global basis for all currency and related sales and trading activities;
- Global Credit Products Group — responsible for all credit trading for money markets, investment grade debt, credit derivatives, structured credit products, syndicated loans, lending businesses, high-yield debt, distressed debt, and emerging markets debt on a global basis;
- Global Commodities Group — responsible for commodity trading activities on a global basis;
- Global Equity Trading Group — responsible for cash equity trading and trading activities in equity derivatives, exchange-traded options, convertibles and financial futures on a global basis;
- Global Equity Financing & Services Group — responsible on a global basis for prime brokerage, stock loan, money manager services and clearing, settlement and custody functions; and
- Global Investor Client Group — responsible for sales efforts across debt and equity products on a global basis.

GMI's Investment Banking structure includes the following businesses:

- Global Origination — responsible for all origination activities across industries and sectors on behalf of GMI's issuer clients on a global basis;
- Global Capital Markets & Financing Group — responsible for all capital-related activities for GMI's issuer clients, including equity and debt capital markets, corporate finance and public finance;
- Leveraged Finance Group — responsible for all leveraged finance activities for issuers and investors, including high-yield bond and loan sales and trading, high-yield capital markets, financial sponsors coverage, leveraged finance origination and loan syndication;
- Global Financial Institutions Group — responsible for all origination and investment banking activities for financial institutions on a global basis;
- Global Mergers and Acquisitions Group — responsible for strategic advisory and mergers and acquisitions activities on a global basis; and
- Executive Client Coverage Group — senior client relationship managers who focus exclusively on strengthening relationships and maximizing opportunities with key clients.

Other businesses within GMI include Merrill Lynch Global Private Equity and bank lending. For a full description of GMI bank lending activities, please see the "GMI Lending Activities in the United States" and "GMI Banking Activities Outside the United States" sections under *Global Bank Group Activities* in Part I, Item 1 of this Report.

GMI has a presence in 27 countries. GMI's activities inside the United States are conducted primarily from Merrill Lynch's headquarters in New York City and from other office locations throughout the United States. GMI's activities outside the United States are primarily conducted through MLI, which has a significant presence in London, Merrill Lynch Japan Securities Co., Ltd., which has a presence in Tokyo, and through locally established affiliates strategically located throughout the world.

Investment Banking Activities:

Merrill Lynch is a leading global investment banking firm that participates in virtually all aspects of investment banking for corporate, institutional, government and municipal clients and acts in principal, agency and advisory capacities. Merrill Lynch provides a wide variety of financial services, including underwriting the sale of securities to the public, privately placing securities with investors, structured and derivative financing, project financing, and mortgage and lease financing. Its financial advisory services include advice on strategic matters, including mergers and acquisitions, divestitures, spin-offs, restructurings, capital structuring, leveraged buyouts and defensive projects.

In connection with its investment banking activities, including the underwriting and private placement of securities, Merrill Lynch from time to time has taken principal positions in transactions and has extended credit to clients through the purchase of senior and subordinated debt, provided bridge financing on a select basis and participated in both syndicated loans and credit facilities and credit lines for commercial paper programs for certain corporate issuers. Before engaging in any of these financing activities, an analysis is performed to ascertain the underlying creditworthiness of the particular client and the liquidity of the market for the securities that may be issued in connection with any such financings and to determine the likelihood of refinancing within a reasonable period of time. In addition, equity interests in the subject companies from time to time are acquired as part of, or in connection with, such activities.

According to league table results published by *Thomson Financial Securities Data* that are derived from statistics based on full credit to book managers, in 2004 Merrill Lynch ranked sixth in global debt underwriting and fourth in global equity and equity-linked underwriting with market shares of 6.4% and 8.6%, respectively. Merrill Lynch ranked fourth in global completed mergers and acquisitions in 2004 with a market share of 20.9%. In GMI, the focus in investment banking continues to be on higher margin activities balanced with aggregate market share goals. Additional market share information is disclosed in *Management's Discussion and Analysis* on page 26 of the 2004 Annual Report.

Brokerage, Dealer and Related Activities:

In the United States, MLPF&S is a broker (i.e., acts as agent) for corporate, institutional, government, and private clients, and is a dealer (i.e., acts as principal) in the purchase and sale of corporate securities, primarily equity and debt securities traded on exchanges or in the over-the-counter markets. MLPF&S also acts as a broker and/or a dealer in the purchase and sale of mutual funds, money market instruments, government securities, high-yield bonds, municipal securities, futures and options, including option contracts for the purchase and sale of various types of securities. Merrill Lynch, through MLPF&S, MLI and various other subsidiaries, is a dealer in equity and fixed income securities of a significant number of U.S. and non-U.S. issuers, in government obligations of the United States and other sovereigns, in U.S. municipal securities, in mortgage-backed and asset-backed securities and in loans and related financial instruments.

As part of its trading activities, Merrill Lynch places its capital at risk by engaging in block positioning to facilitate transactions in large blocks of listed and over-the-counter securities and by engaging, from time to time, in proprietary transactions for its own account. In its block positioning activities, Merrill Lynch purchases securities or sells them short for its own account, without having full commitments for their resale or covering purchase, thereby employing its capital to effect large transactions. In addition, Merrill Lynch facilitates various trading strategies involving the purchase and sale of financial futures contracts and options and, in connection with this activity, it may establish positions for its own account and risk. Merrill Lynch may also take proprietary positions for its own account, not in connection with block positioning or other customer facilitation.

Merrill Lynch makes a market in Nasdaq and over-the-counter securities, including non-U.S. securities. Merrill Lynch's U.S. listed and Nasdaq and international listed equity trading functions are integrated into separate units, which facilitates the trading of securities within a business sector, regardless of whether the securities are listed on the New York Stock Exchange or Nasdaq, or traded on the over-the-counter market. Outside the United States, MLI is a registered market maker and makes a market in the equity securities of the more actively traded non-U.S. companies. MLPF&S and MLI are also dealers in mortgage-backed, asset-backed and corporate and government fixed-income securities.

Merrill Lynch Government Securities Inc. ("MLGSI") is a primary dealer in obligations issued or guaranteed by the U.S. Government and regularly makes a market in securities issued by Federal agencies and other government-sponsored entities, such as, among others, Government National Mortgage Association, Fannie Mae and Freddie Mac. MLGSI deals in mortgage-backed pass-through certificates issued by certain of these entities and also in related futures, options, and forward contracts for its own account, to hedge its own risk, and to facilitate customers' transactions. As a primary dealer, MLGSI acts as a counterparty to the Federal Reserve Bank of New York ("FRBNY") in the conduct of open market operations and regularly reports positions and activities to the FRBNY.

An integral part of MLGSI's business involves entering into repurchase agreements and securities lending transactions. These transactions aid in financing MLGSI's inventory and provide short-term investment vehicles for customers, including Merrill Lynch affiliates. As part of MLGSI's business as a dealer in government obligations, MLGSI also enters into reverse repurchase transactions whereby MLGSI buys securities from counterparties and simultaneously agrees to sell them back at a future date. Such agreements provide MLGSI with access to desired securities and customers with temporary liquidity for their investments in U.S. Government and agency securities.

Various non-U.S. Merrill Lynch subsidiaries act as dealers in certain securities issued or guaranteed by the governments of the countries where such subsidiaries are located.

Derivative Dealing and Foreign Exchange Activities:

Merrill Lynch, through MLPF&S, MLI, Merrill Lynch Capital Services, Inc. ("MLCS"), Merrill Lynch Capital Markets Bank Limited ("MLCMBL"), and Merrill Lynch Derivative Products AG ("MLDP"), acts as an intermediary and principal in equity, credit, interest rate, currency and other over-the-counter derivative transactions. MLI engages in equity and credit derivatives business in the over-the-counter markets. MLCS and MLDP are Merrill Lynch's primary interest rate and currency derivative product dealers. MLI is Merrill Lynch's primary credit and equity derivatives product dealer.

MLCS primarily acts as a counterparty for certain derivative financial products, including interest rate and currency swaps, caps and floors, and options. MLCS maintains positions in interest-bearing securities, financial futures and forward contracts to hedge its interest rate and currency risk related to derivative exposures. In the normal course of its business, MLCS enters into repurchase and resale agreements with certain affiliated companies. MLCS also engages, to a limited degree, in certain commodity-related transactions as a principal.

MLDP acts as an intermediary for certain derivative products, including interest rate and currency swaps, between MLCS and counterparties that are highly rated or otherwise acceptable to MLDP. Its activities address certain swap customers' preference to limit their trading to those dealers having the highest credit quality. MLDP has been assigned the Aaa, AAA and AAA counterparty rating by the rating agencies Moody's Investors Service, Standard & Poor's Ratings Services and Fitch Ratings, respectively. Customers meeting certain credit criteria enter into swaps with MLDP and, in turn, MLDP enters into offsetting mirror swaps with MLCS. However, MLCS is required to provide MLDP with collateral to meet certain exposures MLDP may have to MLCS.

MLCMBL, an Irish bank with branch offices in Frankfurt and Milan, acts primarily as a credit intermediary (with market risk hedged through various affiliates) for swap, options and other derivative transactions, and secondarily, as principal for a variety of debt derivative transactions. In addition to its derivatives activities, MLCMBL engages in advisory, lending, loan trading, and institutional sales activities.

GMI's Foreign Exchange Group, primarily through Merrill Lynch International Bank Limited ("MLIB"), provides foreign exchange trading services to corporations, other institutional investors and high-net-worth individuals in various countries. For this business, MLIB primarily operates out of its principal office in London, and through affiliated agents in New York and Tokyo.

Mortgage Activities:

Merrill Lynch Mortgage Capital Inc. ("MLMCI") is a dealer in whole loan mortgages, mortgage loan participations, mortgage loan servicing and syndicated commercial loans. As an integral part of its business, MLMCI enters into repurchase agreements whereby it obtains funds by pledging its own whole loans as collateral. The repurchase agreements provide financing for MLMCI's inventory and serve as short-term investments for MLMCI's customers. MLMCI also enters into reverse repurchase agreements through which it provides funds to customers collateralized by whole loan mortgages, thereby providing the customers with temporary liquidity.

Merrill Lynch Mortgage Lending, Inc. ("MLML") is a commercial mortgage conduit that makes, and purchases from lenders, both commercial and multi-family mortgage loans and then securitizes these loans for sale to investors. MLMCI and MLML purchase prime, subprime, nonperforming and subperforming residential mortgage loans from originators of these loans and aggregates these loans for sale in the securitization market. In 2004, Merrill Lynch purchased Wilshire Credit Corporation, one of the leading companies in the subprime, nonperforming and reperforming residential mortgage special servicing markets. In 2004, MLIB acquired Majestic Acquisitions Limited ("MAL"), parent of a group of companies, including Mortgages plc, that provide mortgage lending, administration and servicing in the U.K. nonconforming residential mortgage market. It is expected that these acquisitions will accelerate the growth of GMI's residential mortgage business and complement GMI's existing whole loan trading and securitization activities. Currently, it is planned that Wilshire Credit Corporation and Mortgages plc will retain their names. Wilshire Credit Corporation will operate as a subsidiary of MLMCI.

Principal Investing and Structured Finance Activities:

Merrill Lynch, through various subsidiaries, provides to its qualified institutional clients term, mezzanine and bridge financing which may be secured by performing, subperforming and nonperforming commercial real estate assets or mortgage loans, portfolios of residential real estate assets or mortgage loans, consumer receivables or other assets. Merrill Lynch, through various subsidiaries including ML IBK Positions, Inc., also makes proprietary investments in all levels of the capital structure of U.S. and non-U.S. companies, and in special purpose companies owning real estate, mortgage loans, consumer receivables and other assets, and may make direct equity investments in real estate assets, mortgage loans and other assets.

Money Markets and Related Activities:

Merrill Lynch, through various subsidiaries including Merrill Lynch Money Markets Inc. and MLPF&S, provides a full range of origination, trading and marketing services with respect to money market instruments. These instruments include commercial paper, institutional and retail certificates of deposit, medium-term notes, bank notes and auction rate preferred securities.

Futures Business Activities:

Merrill Lynch's futures business activity is conducted through MLPF&S and other subsidiaries. MLPF&S holds memberships and/or has third-party clearing relationships with respect to all major commodity and financial futures exchanges and clearing associations in the United States and it also carries positions reflecting trades executed on exchanges outside of the United States through affiliates and/or third-party clearing brokers. Other Merrill Lynch subsidiaries hold memberships on major commodity and financial futures exchanges and clearing associations outside the United States and may carry proprietary and/or customer positions in accounts maintained on their books. Futures and futures options transactions generally are executed by, cleared through and/or carried by MLPF&S or other Merrill Lynch subsidiaries engaged in futures activities. However, in certain contracts, or on certain exchanges, third party brokers are utilized to execute and clear trades. MLPF&S and several of its affiliates also may take proprietary market positions in futures and futures options in certain instances.

Commodities Business Activities:

The commodities business activity is conducted through Merrill Lynch Commodities, Inc. ("MLCI"), Merrill Lynch Commodities (Europe) Limited ("MLCE"), Merrill Lynch Commodities (Europe) Trading Limited ("MLCETL") and other subsidiaries. In November 2004, Merrill Lynch, through MLCI, acquired the commodities trading businesses of Entergy-Koch, LP, a venture of Entergy Corporation and privately-owned Koch Energy, Inc., a subsidiary of Koch Industries, Inc. It is expected that this transaction will position Merrill Lynch as a leader in energy trading, expanding its product offerings of natural gas, power and weather derivatives to institutional investor and corporate clients. Merrill Lynch expects to expand the business into other aspects of energy trading.

MLCI and MLCE trade as principal in physically and financially settled natural gas and power markets and in weather derivatives. MLCI and MLCE also assist clients in managing energy risk. MLCETL acts as arranger and agent for MLCE and other subsidiaries in connection with commodity trading activities outside the United States. MLCI holds a membership on a major commodity exchange in the United States.

Securities Finance, Settlement and Clearance and Prime Brokerage:

Merrill Lynch provides financing to clients, including securities lending, margin lending and other extensions of credit such as fund of fund financing, and repurchase and derivative transactions in connection with prime brokerage services. In a margin-based transaction, Merrill Lynch extends credit for a portion of the market value of the securities owned by the client or in its account up to the limit imposed by internal Merrill Lynch policies and applicable margin rules and regulations. Since Merrill Lynch may have financial exposure if a client fails to meet a margin call, margin loans made by Merrill Lynch generally are collateralized by securities in the client's account. Financial reviews, margin procedures and other credit standards are used in an effort to limit any exposures resulting from this margin lending activity. Interest on margin loans is an important source of revenue for Merrill Lynch. To finance margin loans, Merrill Lynch uses funds on which it pays interest (including ML & Co. borrowings), funds on which it does not pay interest (including its own capital), funds derived from clients' free credit balances and funds derived from rehypothecated client assets to the extent permitted by regulations, and funds derived from loaned securities.

Merrill Lynch provides securities clearing services for its own account and for the account of its customers, third party broker-dealers and other professional trading entities, through its subsidiaries including MLPF&S and Merrill Lynch Professional Clearing Corp. ("ML PRO"). MLPF&S provides these services to approximately 100 unaffiliated broker-dealers. While the introducing broker-dealer firm retains all sales functions with its customers, MLPF&S services the customers' accounts and handles all settlement and credit aspects of transactions. ML PRO clears transactions for specialists and market-makers on various national and regional stock exchanges and clears futures transactions for clients through a divisional clearing arrangement with MLPF&S. In addition, ML PRO clears transactions of arbitrageurs, customers and other professional trading entities. ML PRO also clears transactions for broker-dealers engaged in proprietary trading, for introducing brokers whose accounts are carried on a fully disclosed basis and for selected institutional accounts as direct accounts of ML PRO that transact business primarily on a prime brokerage basis.

Merrill Lynch, through ML PRO, is a listed options electronic market-maker. The business is conducted through the International Securities Exchange, a fully electronic United States options platform. In 2004, GMI acquired ABN AMRO's United States equities and options execution and clearing business. MLPF&S and ML PRO have entered into new agreements with a number of former clients of ABN AMRO to provide clearing services.

As part of its Global Equity Financing & Services Group offering, Merrill Lynch provides origination services to investment managers and places their funds through its alternative investment marketing team. In its prime brokerage business, Merrill Lynch, through its MLPrime[sm] platform, services Merrill Lynch's hedge fund clients offering eligible clients financing alternatives, risk management, profit and loss analytics, global securities lending and capital introduction.

Private Equity Investing Activities:

Merrill Lynch Global Private Equity ("MLGPE") is the private equity investment arm of Merrill Lynch, managing assets primarily for its own account and for that of certain investment partnerships of its employees. MLGPE has investments in companies in over 14 different countries, managed by a group that operates from offices in New York, London, Hong Kong, Sao Paulo, Bangkok and Sydney.

MLGPE seeks to make equity and equity-related investments in select companies on a global basis with the objective of medium- to long-term capital appreciation. The group targets significant minority and control ownership positions in established businesses in a wide range of industries and regions, and invests on a stand-alone basis as well as with other investors. Investments may take the form of, among other things, private stock or asset purchases, corporate carve-outs, or buyouts (leveraged or otherwise) of public companies.

MLGPE also manages certain Merrill Lynch-sponsored private equity funds for the benefit of third-party institutional and private clients.

Merrill Lynch may underwrite, trade, invest and make markets in certain securities of companies in which MLGPE or Merrill Lynch-sponsored funds have invested, and may also provide financial advisory services to those companies or maintain a commercial relationship with them. The MLGPE employees who invest and manage the investment assets of MLGPE or Merrill Lynch-sponsored funds may participate in the gains on those investment assets.

GLOBAL PRIVATE CLIENT ("GPC")

GPC provides a full range of advice-based wealth management products and services to assist clients in managing aspects of their financial profile through the *Total Merrill* [sm] platform. GPC's offerings include:

- commission and fee-based investment accounts;
- brokerage and investment advisory products and services;
- credit products and consumer and small business lending;
- banking and cash management services, including credit cards;
- trust and generational planning;
- retirement services; and
- insurance products.

GPC offers a choice of traditional commission-based investment accounts, a variety of asset-priced investment services and self-directed online accounts to align asset account structure with each client's specific investment requirements and goals. In 2004, GPC continued the integration of its U.S. and non-U.S. private client businesses and its emphasis on segmentation, revenue diversification and operating leverage.

GPC serves individual investors and small- and middle-market corporations and institutions through approximately 14,100 Financial Advisors ("FAs") in approximately 630 offices around the world as of year-end 2004.

Brokerage, Dealer and Related Investment Activities:

In the United States, GPC's brokerage and advisory services are provided through MLPF&S. MLPF&S is a broker and a dealer in the purchase and sale of corporate equity and fixed income securities, money market instruments, government securities, alternative investment products, including hedge funds, private equity funds, and managed futures and exchange funds, municipal securities, futures and options. In addition, MLPF&S acts as a dealer in the distribution of mutual funds and closed end funds.

GPC also provides discretionary and non-discretionary investment advisory services through MLPF&S. These advisory services include Merrill Lynch Consults® Service, the Merrill Lynch Mutual Fund Advisor® program, the Personal Investment Advisory Program, Merrill Lynch Global Selects, and the Merrill Lynch Mutual Fund Advisor Selects® program. GPC offers fee-based financial planning services, including the Financial Foundation® report.

GPC also structures and sponsors a wide variety of investment products for qualified clients and enters into selling agreements to distribute third party sponsored funds. Through its HedgeAccess® product, Merrill Lynch offers qualified clients the opportunity to invest in a select, diverse group of single manager hedge funds and fund of funds with consistent terms and exchange privileges. These products are sold to both U.S. and non-U.S. high-net-worth investors.

Client Service:

MLPF&S has established commission rates or fixed charges for all brokerage services that it performs. For certain accounts, however, its policy is to negotiate commissions based on economies of scale and the complexity of the particular trading transaction, and for its institutional customers, based on the competitive environment and trading opportunities. Clients may elect to enroll in a non-discretionary brokerage service called Unlimited Advantage®, which offers securities and investment transaction services, as well as other planning and account services, for an annual asset-based fee.

Total Merrill Wealth Management Platform:

Through its *Total Merrill* platform, Merrill Lynch provides a fully integrated array of wealth management services, including consumer lending, mortgage lending and banking and cash management services. For a full description of GPC activities within the Global Bank Group, please see the "GPC Deposit Taking and Lending Activities in the United States" and "GPC Banking Activities Outside the United States" sections under *Global Bank Group Activities* in Part I, Item 1 of this Report.

MLPF&S provides financing to GPC clients, including margin lending and other extensions of credit. See GMI *Securities Finance, Settlement and Clearance and Prime Brokerage* in Part I, Item I of this Report. Through the *Beyond Banking*® account, a Merrill Lynch customer has access to a special securities account product designed for everyday transactions, savings and cash management that combines Visa, check writing and ATM access with available advice and guidance. In 2004, Merrill Lynch began offering the *Merrill+*sm Visa credit card, in partnership with MBNA America Bank N.A., through its Financial Advisor and Private Wealth Advisory Network.

Client Accounts:

Individual clients access the full range of GPC brokerage and advisory services through the CMA® account. At the end of 2004, there were more than 2.3 million CMA accounts with aggregate assets of approximately $645 billion. Small- and medium-sized businesses obtain a wide range of securities account and cash management services through the Working Capital Management Account® ("WCMA account") and related services. The WCMA account combines business checking, borrowing (through MLPF&S or its affiliate, Merrill Lynch Business Financial Services Inc.), investment and electronic funds transfer services into one account for participating business clients. At the end of 2004, there were almost 114,000 WCMA accounts that, in the aggregate, had investment assets of almost $98 billion. Through Merrill Lynch OnLine®, clients can access their Merrill Lynch accounts, including account information, real time quotes, Merrill Lynch research and a variety of other investment information.

Financial Advisor and Private Wealth Advisor Network:

Brokerage and advisory financial services are provided in the United States to GPC clients principally through the Financial Advisor network. Outside the United States, Merrill Lynch provides comprehensive brokerage and investment services and related products through a network of offices located in 28 countries. In certain countries such as the United Kingdom and Japan, clients can open accounts with Merrill Lynch affiliates that are locally regulated. Banking and trust services as well as asset management services are also offered to private clients in many countries.

To be more responsive to client needs and enhance the quality of its clients' experience, both inside and outside the United States, Merrill Lynch offers a multi-channel service model, more closely aligning its FAs with clients based on levels of investable assets. For example, its Private Wealth Advisors, FAs who have completed a rigorous accreditation program, focus on clients with more than $10 million of investable assets. For clients in the U.S. with less than $100,000 of investable assets, Merrill Lynch utilizes its Financial Advisory Center to more effectively serve these clients through a team based service platform with access by telephone and internet. GPC also has created International Financial Advisory Centers to more effectively serve non-U.S. clients with lower levels of investable assets.

Merrill Lynch also provides electronic brokerage service through Merrill Lynch Direct®, an internet-based brokerage service for U.S. clients preferring a self-directed approach to investing. Merrill Lynch Direct offers online equity and fixed income trading, mutual funds, access to Merrill Lynch and other research and a variety of online investing tools.

Retirement Services:

The Merrill Lynch Retirement Group is responsible for approximately $329 billion in retirement assets for approximately 5.7 million individuals. These assets are held either in individual accounts or through one of approximately 29,000 workplace-based retirement programs covered by the group.

MLPF&S provides a wide variety of investment and custodial services to individuals through Individual Retirement Accounts ("IRAs") and through small business retirement programs such as the Merrill Lynch Simplified Employee Pension Plan and the Merrill Lynch Simple Retirement Account Plan. MLPF&S also provides investment, administration, communications and consulting services to corporations and their employees for their retirement programs. These programs include 401(k), pension, profit-sharing and non-qualified deferred compensation plans, as well as other retirement benefit plans. In addition, Merrill Lynch offers *Merrill Lynch Advice Access*®, an investment advisory service for individuals in retirement plans that provides plan participants with the option of obtaining advice through their local FA, an advisor at the Financial Advisory Center or through Merrill Lynch's Benefits Online® website. In 2004, Merrill Lynch announced a number of strategic alliances in order to expand retirement-related products and services, particularly in the areas of web-based delivery, enhanced systems and processing capabilities and actuarial and benefits consulting.

Insurance Activities:

Merrill Lynch's insurance activities primarily consist of Merrill Lynch Life Insurance Company ("MLLIC") and ML Life Insurance Company of New York ("ML Life") underwriting annuity products. These activities also include the sale of proprietary and non-proprietary life insurance and annuity products through Merrill Lynch Life Agency Inc. and other insurance agencies affiliated or associated with MLPF&S operating in the United States, Guam and the United States Virgin Islands. When conducting such sales, Merrill Lynch FAs act in the capacity of insurance agents representing the insurance company whose product is being sold.

MLLIC, an Arkansas stock life insurance company, is authorized to underwrite life insurance and annuity products in 49 states, Puerto Rico, the District of Columbia, Guam and the United States Virgin Islands. ML Life, a New York stock life insurance company, is authorized to underwrite life insurance, annuities and accident and health insurance in nine states. At year-end 2004, MLLIC and ML Life had approximately $8.4 billion of life insurance in force and annuity contracts in force of more than $10.0 billion in value. In 2003, MLLIC and ML Life discontinued the underwriting of life insurance products. ML Life does not presently underwrite accident and health insurance products.

Through agency agreements, licensed affiliate insurance agencies and other insurance agencies associated with MLPF&S sell life and health insurance and annuity products to MLPF&S customers. Approximately 15% of annuity sales consists of products underwritten by MLLIC and ML Life.

Trust Activities:

Merrill Lynch provides personal trust, employee benefit trust and custodial services. Trust services in the United States are provided by Merrill Lynch Trust Company, FSB, a federally chartered savings bank. Trust services outside of the United States are provided by Merrill Lynch Bank and Trust Company (Cayman) Limited, Merrill Lynch Trust Services S.A. and Merrill Lynch Corporate (New Zealand) Limited.

GPC Lending/Bank Activities:

For a full description of GPC activities within the Global Bank Group, please see the "GPC Deposit Taking and Lending Activities in the United States" and "GPC Banking Activities Outside the United States" sections under *Global Bank Group Activities* in Part I, Item 1 of this Report.

MERRILL LYNCH INVESTMENT MANAGERS ("MLIM")

MLIM is among the world's largest asset managers with approximately $496 billion of assets under management at the end of 2004. Firmwide assets under management at the end of 2004 total approximately $501 billion. The principal subsidiaries engaged in asset management activities conducted through the MLIM brand name are Merrill Lynch Investment Managers, L.P. ("MLIM LP"), Fund Asset Management, L.P. ("FAM") and Merrill Lynch Investment Managers Limited ("MLIM Limited").

With portfolio managers located in the United States, the United Kingdom, Japan and Australia, MLIM:

- manages a wide variety of investment products ranging from money market funds and other forms of short-term fixed income investments to long-term taxable and tax-exempt fixed income funds or portfolios, along a broad spectrum of quality ratings and maturities;
- offers a wide array of taxable and tax-exempt fixed-income, equity and balanced mutual funds and segregated accounts to a diverse global clientele;
- manages transitional portfolio restructurings for institutional clients changing investment objectives or managers; and
- offers a wide assortment of index-based equity and alternative investment products.

The investment performance results for over 70% of MLIM's global assets under management were above benchmark or category median for the 1-, 3- and 5-year periods ending December 2004. Current industry standards typically measure investment results for institutional accounts against a benchmark (such as the S&P 500 Index) and investment results for retail mutual funds against competitor results ranked by quartile within investment category as reported by third-party organizations.

MLIM's clients include institutions, high-net-worth individuals and retail investors. MLIM-branded products are available through third-party distribution networks and the GPC distribution channel. MLIM also distributes certain of its products through GMI. MLIM maintains a significant sales and marketing presence both inside and outside the United States that is focused on acquiring and maintaining institutional investment management relationships by marketing its services to institutional investors both directly and through pension consultants, and establishing third-party distribution relationships.

In the United States, the MLIM brand of mutual funds (except for its money market funds) generally is offered pursuant to the *Merrill Lynch Select Pricing*SM system, which allows investors to choose from various pricing alternatives. At the end of 2004, MLIM provided global advisory services for mutual funds, unit investment trusts and other non-U.S. equivalent products totaling approximately $218 billion. MLIM's international mutual fund ranges are based in a number of domiciles and cover a range of asset classes, including cash, bonds and equities. The primary retail fund range offered internationally is Merrill Lynch International Investment Funds ("MLIIF"). MLIIF are authorized for distribution in more than 25 jurisdictions worldwide.

MLIM manages separate accounts for high-net-worth retail investors. MLIM also manages assets for governments, pension funds, endowments and other institutional investors in a wide variety of active and passive strategies relating to both equity and fixed-income assets. At the end of 2004, MLIM managed a total of approximately $38 billion in retail separate accounts and $240 billion in institutional accounts.

MLIM also offers a wide assortment of alternative investment products such as structured products, real estate funds, hedge funds, hedge funds of funds, private equity funds of funds, managed futures funds and exchange funds. These products are sold to both U.S. and non-U.S. high-net-worth retail and institutional investors. At the end of 2004, assets under management included approximately $11.3 billion of client capital committed to and approximately $8.2 billion invested in alternative investment products.

OTHER BUSINESS ACTIVITIES

Global Bank Group Activities:

The Merrill Lynch Global Bank Group provides the management platform for Merrill Lynch's banking products and services worldwide. Banks in the United States within this group include Merrill Lynch Bank USA ("MLBUSA") and Merrill Lynch Bank & Trust Co. ("MLBT" and with MLBUSA, the "ML U.S. Banks"). Both are state chartered depository institutions insured by the Federal Deposit Insurance Corporation ("FDIC") and both are wholesale banks for Community Reinvestment Act purposes. International banks in the group include MLIB, MLCMBL, Merrill Lynch Capital Markets AG, Merrill Lynch Bank (Suisse) S.A. and Merrill Lynch Bank and Trust Company (Cayman) Limited ("MLBT Cayman"). At year-end 2004, the ML U.S. Banks (including subsidiaries) had total assets of approximately $80.0 billion and the international banks (including subsidiaries) had total assets of approximately $39.3 billion.

GPC Deposit Taking and Lending Activities in the United States

Deposit Taking:

The ML U.S. Banks offer certificates of deposit, transaction accounts and money market deposit accounts. They also issue VISA debit cards. The ML U.S. Banks derive the majority of their deposits from GPC securities brokerage clients. Rates for certain deposit products are based on the scope of the clients' relationships with Merrill Lynch as defined by the value of the deposits and other assets in their accounts. The combined ML U.S. Banks' deposits were approximately $66 billion at year-end 2004. The ML U.S. Banks' deposits are utilized by MLBUSA for its own lending and investment activities and for the lending activities of its subsidiaries. MLBT uses deposit funding to purchase residential mortgage loans and securities-based loans originated by MLBUSA and its subsidiaries. The ML U.S. Banks also utilize deposits to invest in a high credit quality investment securities portfolio.

Residential Mortgage Lending Activities:

Merrill Lynch Credit Corporation ("MLCC"), a wholly-owned subsidiary of MLBUSA headquartered in Jacksonville, Florida, offers residential mortgage financing throughout the United States. MLCC offers clients a full range of credit products including first mortgage loans, home equity lines of credit and construction-to-permanent home financing, enabling clients to purchase and refinance their homes as well as to manage their other personal credit needs. MLCC offers a variety of adjustable-rate, fixed-to-adjustable-rate and fixed-rate mortgages. In 2004, MLCC announced the Blended-Rate^{SM} mortgage, a new adjustable-rate product that combines the historically lower rates of an adjustable-rate mortgage with certain attributes of fixed-rate home financing for an initial term. These products are delivered primarily through a long-term outsourcing arrangement with PHH Mortgage Corporation, formerly Cendant Mortgage Corporation, ("PHH") in which PHH performs substantially all of the origination processing functions on behalf of MLCC. Merrill Lynch employees remain engaged in the sales, marketing and distribution of MLCC mortgages, and these financing solutions are offered to Merrill Lynch clients through Merrill Lynch's FAs, the Financial Advisory Center and websites. Additionally, MLCC acquires a portion of its loans through its correspondent group, which acquires residential mortgages from third parties. MLCC is a major participant in the residential jumbo mortgage market in the U.S. All of MLCC's loans are serviced or sub-serviced by PHH at its servicing headquarters located in Mt. Laurel, New Jersey.

Business Financial Services:

Merrill Lynch provides cash management and business financing services to small- and mid-sized businesses. It provides cash management services through the WCMA account, a brokerage account with MLPF&S that integrates cash management, investing and financing through one account. For additional information about WCMA accounts at MLPF&S, see GPC *Client Accounts* in Part I, Item 1 of this Report.

Merrill Lynch Business Financial Services Inc. ("MLBFS"), a wholly-owned subsidiary of MLBUSA, originates commercial financing for qualifying small- and mid-size businesses, including lines of credit and reducing revolver loans through the WCMA Commercial Line of Credit and the WCMA Reducing Revolver^{sm} Loan, respectively. MLBFS also assists its qualifying business clients with equipment financing, owner-occupied commercial real estate and other specialized financing needs. At the end of 2004, total outstanding loans and unfunded commitments held by MLBFS (exclusive of its Merrill Lynch Capital division) and its affiliate, MLBC, Inc., were more than $5.4 billion and $3.4 billion, respectively, of which approximately 97.9% and 90.4%, respectively, were secured by assets pledged by clients.

Securities Based Lending:

MLBUSA offers securities-based loans primarily to individual clients. These loans are separate and distinct from margin loans available to clients from MLPF&S. Securities-based loans are collateralized by eligible securities held in MLPF&S securities brokerage accounts which are pledged by the borrower or a guarantor. The interest rates on securities-based loans are tied to a variable index, such as LIBOR, although some loans may have a fixed rate of interest. In April 2004, MLBUSA launched the Loan Management Account^{sm}, a single account, which is separate from MLPF&S investment and brokerage accounts, where different types of securities-based loans can be established, including a line of credit, term loans and letters of credit.

Transfer Agency Services:

Financial Data Services Inc., a wholly-owned subsidiary of MLBT, is a registered transfer agent and provides support and services for both Merrill Lynch and non-Merrill Lynch mutual fund products.

GMI Lending Activities in the United States

Some Global Bank Group commercial lending and finance activities are sourced through GMI and include syndicated and bridge financing, asset based lending, commercial real estate lending, equipment financing, and standby or "backstop" credit in various forms (including syndicated and bilateral loans and lines of credit and standby letters of credit) for large institutional clients generally in connection with their commercial paper programs. The Credit and Commitments Group is responsible for the ongoing management of parts of Merrill Lynch's syndicated loan portfolio, including portions of the commercial lending portfolio of the Global Bank Group. The Credit and Commitments Group also provides various services including borrower surveillance, documentation management, loan administration and credit risk hedging and loan sales activities.

The Global Bank Group also provides corporate finance, healthcare finance, commercial real estate and equipment financing lending to qualifying mid- and large-sized business clients through the Merrill Lynch Capital division of MLBFS. At the end of 2004, total outstanding loans and unfunded commitments held through the Merrill Lynch Capital division by MLBFS and its affiliates were more than $5.8 billion and $2.7 billion, respectively, of which approximately 97.9% and 94.5%, respectively, were secured by assets pledged by clients.

GPC Banking Activities Outside the United States

MLIB, an authorized credit institution under the U.K. Financial Services and Markets Act 2000, provides collateralized (including mortgage) lending, letter of credit, guarantee and foreign exchange services to, and accepts deposits from, international private clients. In addition, it has a number of branch offices in which FAs provide services to investors and various affiliated entities.

MLBT Cayman, licensed as a Bank & Trust company under the laws of the Cayman Islands, provides trust services and accepts current and time deposits from international private clients.

Merrill Lynch Bank (Suisse) S.A. is a Swiss licensed bank, providing a full array of banking, asset management and brokerage products and services, including securities trading and custody, secured loans and overdrafts, fiduciary deposits, foreign exchange trading and discretionary portfolio management services to international private clients.

GMI Banking Activities Outside the United States

Commercial lending through banks outside of the United States is conducted through MLCMBL and MLIB, as well as through other non-bank Merrill Lynch affiliates. For a description of additional capital markets activities conducted by MLCMBL and MLIB, please see GMI *Derivative Dealing and Foreign Exchange Activities* in Part I, Item 1 of this Report.

Research Services:

The Global Securities Research & Economics Group provides equity, debt, foreign exchange and economic research services on a global basis to Merrill Lynch's institutional and individual client sales forces and their customers. This group distributes fundamental equity and fixed-income research, economic analyses, technical market and quantitative analyses, equity-linked securities research and investment strategy recommendations covering both equity and fixed-income markets.

Merrill Lynch's rating system for equity securities offers investors three components to consider in assessing stocks: (1) the 0-to-12-month investment recommendation based on clearly defined levels of total return, including price appreciation potential; (2) the projected risk as measured by potential price volatility; and (3) the dividend outlook.

Merrill Lynch consistently ranks among the leading research providers in the industry, and its analysts and other professionals in 20 countries cover approximately 2,600 companies. Current information and investment opinions on these companies, as well as on industry sectors and countries, are available to Merrill Lynch's individual and institutional customers through their FAs and account executives and various electronic sources, including Merrill Lynch's websites.

The Global Securities Research & Economics Group is organized across the following disciplines: Strategy and Economics; Fixed-Income and Equity-Linked Research; Fundamental Equity Research; and Wealth Management Strategy. Each region has a Research Recommendations Committee to oversee its Fundamental Equity investment recommendations. In November 2003, The Global Securities Research & Economics Group formed the GPC Research Investment Committee ("RIC"). The RIC, in partnership with senior members of GPC management, reviews the disciplines and views of Merrill Lynch's macroeconomic specialists to assist Research in focusing on providing targeted research to GPC clients.

Over the previous three years, the research function at integrated broker-dealers has been the subject of substantial regulatory and media attention. As a result of regulatory and legal mandates, as well as firm initiatives, Merrill Lynch has enacted a number of new policies to enhance the quality of its research product including: modifying the compensation system for research analysts; forming regional Research Recommendations Committees to review fundamental equity analysts' investment recommendations;

adopting a new, simplified securities rating system; implementing new policies and procedures to comply with all legal requirements, including those limiting communications between equity research analysts and investment banking and other origination personnel; and adding additional disclosures on research reports regarding potential conflicts of interest. Merrill Lynch also has appointed an independent consultant who identifies independent third-party research providers to provide fundamental research on certain companies covered by Merrill Lynch. This research is made available to Merrill Lynch individual clients in the U.S. and, upon request, to institutional clients in the U.S. in accordance with legal requirements.

The compensation system for research analysts includes an evaluation of the performance of analysts' recommendations, including the extent to which the analyst's insights and recommendations have benefited investors. The compensation of all analysts responsible for the substance of an equity research report is required to be reviewed and approved by a committee reporting to the Board of Directors of MLPF&S. The Management Development and Compensation Committee of the ML & Co. Board of Directors, a Committee consisting entirely of independent directors, also reviews evaluation and compensation policies and processes applicable to research analysts to ensure compliance with legal and regulatory requirements. Additionally, the Audit Committee of the ML & Co. Board of Directors, a Committee consisting entirely of independent directors, reviews budgeting and expense allocation processes applicable to the Global Securities Research & Economics Group to ensure compliance with legal and regulatory requirements. Merrill Lynch's Investment Banking Group has no input into research analyst compensation.

Strategic Growth Initiatives

Merrill Lynch has made investments and strategic acquisitions to grow revenues and earnings and further diversify revenue sources across and within asset classes and geographies. Throughout 2004 Merrill Lynch invested to enhance its operating platform so that the firm can better serve the full breadth of client needs, further diversify and grow its revenues and profits, expand areas that complement existing scale and expertise, and address areas where market share, product range or efficiency can be improved. Management strives to identify industry trends early, carefully control expenses and capital allocation, and actively monitor and measure the progress of these initiatives to enhance the probability of success. The strategic initiatives listed below are central to this strategy of disciplined growth.

GMI:

GMI invested to build a presence in key asset classes where it was previously under-invested or did not have a presence at all, while becoming more focused on providing superior execution and service. In GMI's Global Markets business, growth initiatives emphasize diversifying revenue sources across asset classes and regions in both fixed income and equity trading, while increasing the proportion of proprietary trading in certain asset classes. Primary areas of focus have included secured financing, principal investing, emerging markets debt, credit and other fixed income derivatives, foreign exchange, high-yield products, commodities, portfolio trading, equity derivatives and prime brokerage. These initiatives include investments in personnel, infrastructure and technology. Select strategic investments or acquisitions may be used to accelerate the process of growth within various areas of the business. Acquisitions in 2004 included:

- GMI's acquisition of ABN AMRO's U.S. equities and options execution and clearing business. This acquisition is expected to accelerate GMI's efforts to build its options clearing business, expand its client base and enhance services that are provided to clients in these businesses.
- GMI's acquisition of Wilshire Credit Corporation, one of the leading companies in the subprime, nonperforming and reperforming residential mortgage special servicing markets. This acquisition is expected to accelerate the growth of GMI's residential mortgage business and complement its existing whole loan trading and securitization activities. In addition, the acquisition is expected to enable GMI to significantly grow its principal investment business and expand into new product areas including the servicing of nonperforming, reperforming, and closed-end second mortgages.
- GMI's acquisition of Mortgages plc, a specialist lender in the U.K. consumer finance market that originates and services non-conforming residential loans. The acquisition of Mortgages plc will allow GMI to enter the consumer finance sector in the U.K. to source and service mortgage loans.
- GMI's acquisition of the commodities trading businesses of Entergy-Koch, LP, a venture of Entergy Corporation and privately-owned Koch Energy, Inc., a subsidiary of Koch Industries, Inc. This transaction is expected to position Merrill Lynch as a leader in energy trading, expanding its product offerings of natural gas, power and weather derivatives to institutional investor and corporate clients. Merrill Lynch expects to expand the business into other aspects of energy trading.

In Investment Banking, GMI has emphasized strengthening its leading presence in industry groups such as financial institutions, real estate and energy and power, while also building its coverage in the consumer retail and industrial companies. GMI has also expanded its investment banking presence to cover middle market companies, and continues to fill gaps in areas where Merrill Lynch is under-represented such as leveraged finance and corporate derivatives. Geographically, GMI's priorities in investment banking include Germany, France, Japan, and China.

GPC:

Growth initiatives in GPC have emphasized improving the array of value-added products and services Merrill Lynch Financial Advisors offer clients, as well as enhancing distribution capacity.

Merrill Lynch's *Total Merrill* financial management platform, providing an integrated array of wealth management services, is intended to broaden and enhance existing relationships and attract new clients in the United States. The *Beyond Banking* product, part of the *Total Merrill* relationship, offers clients a comprehensive and convenient cash management solution including nationwide ATM access, checking, direct deposit and charge cards. Included in the *Total Merrill* platform is the *Merrill+*sm Visa credit card launched in April 2004 with MBNA America Bank N.A. As part of its strategic partnership, a full line of unsecured Merrill Lynch branded credit cards are being marketed and serviced by MBNA for Merrill Lynch clients. MBNA is also marketing Merrill Lynch products and services to certain of its customers.

Additionally, GPC is placing more resources of the firm behind retirement products and services to strengthen the platform, improve client service and increase the IRA rollover business. In January 2004, Merrill Lynch announced a strategic alliance with Wealth Management Systems, Inc. to offer retirement plan participants online tools for assessing their distribution options and subsequently making those distributions via a web-enabled platform.

In March 2004, Merrill Lynch announced an alliance with McCamish Systems to offer non-qualified deferred compensation plan sponsors and participants investment and advisory services combined with systems and processing capabilities.

In April 2004, Merrill Lynch announced a joint initiative with Milliman to offer defined benefit actuarial and administration clients consulting and investment services combined with defined benefit administration, actuarial and benefits consulting services.

GPC remains focused on building its non-U.S. business, focusing on the Latin American and Asian markets as well as improving profitability in the EMEA region.

MLIM:

MLIM continued to focus on growing revenues, sustaining solid profitability and maintaining strong investment performance in 2004. Its growth strategy has emphasized broadening its third party distribution and developing innovative asset management products to enhance sales through both proprietary and non-proprietary channels.

A strong area of growth for MLIM in 2004 continued to be third party retail mutual fund sales in Europe and Asia. MLIM has focused on further expanding this distribution channel, as well as the U.S. non-proprietary and institutional channels. MLIM also launched a joint venture fund management company in 2004 with BOC International China Limited and BOC International Holdings, a wholly-owned subsidiary of the Bank of China Group. Through this partnership, MLIM expects to achieve strategic entry into China's investment management market alongside a financial institution in the region.

During 2004, MLIM initiated the launch of several new products and services. Two innovative asset allocation platforms were launched, the Funds Diversified Portfolios ("FDP") brokerage service and the Wealth Diversified Portfolios ("WDP") investment advisory account, to complement MLIM's offering within GPC's Consults Diversified Portfolios advisory service. These services offer clients diversification, rebalancing and professional asset allocation recommendations for a range of risk profiles across the full range of account sizes from the $15,000 minimum account size within FDP all the way up to the $1 million minimum account size for WDP. MLIM also introduced Multi-Strategy Hedge Opportunities LLC, its first fund-of-hedge-funds portfolio registered with the SEC. These initiatives are examples of MLIM's focused strategy to deliver innovative products, services, and investment management solutions for its clients.

Competition

All aspects of Merrill Lynch’s business are intensely competitive, particularly underwriting, trading and advisory activities, and have been affected by consolidation within the financial services industry and by the entry of non-traditional competitors, such as commercial banks, insurance companies and online financial services providers.

Merrill Lynch competes for clients, market share and human talent in every aspect of its business.

Merrill Lynch competes directly on a global basis with other U.S. and non-U.S. trading, investment banking and financial advisory service firms and brokers and dealers in securities. It also competes with commercial banks and their affiliates in these businesses, particularly in its derivatives and capital markets businesses. Many of Merrill Lynch’s non-U.S. competitors may have competitive advantages in their home markets. Merrill Lynch’s competitive position depends to an extent on prevailing worldwide economic conditions and U.S. and non-U.S. government policies.

Merrill Lynch also competes for investment funds with mutual fund management companies, insurance companies, finance and investment advisory companies, banks and trust companies and other institutions. Merrill Lynch competes for individual and institutional clients on the basis of price, the range of products that it offers, the quality of its services, its financial resources, and product and service innovation.

In the financial services industry, there is significant competition for qualified employees. Merrill Lynch faces competition for qualified employees from both traditional and non-traditional competitors, including commercial banks, insurance companies, online financial services providers and private equity funds. Merrill Lynch’s ability to compete effectively in its businesses is substantially dependent on its continuing ability to attract, retain and motivate qualified employees, including successful FAs, investment bankers, trading professionals and other revenue-producing or experienced personnel.

Merrill Lynch’s businesses are highly dependent on the ability to timely process a large number of transactions across numerous and diverse markets in many currencies, at a time when transaction processes have become increasingly complex and are increasing in volume. The proper functioning of financial, control, accounting and other data processing systems is critical to Merrill Lynch’s businesses and its ability to compete effectively.

Regulation

Holding Company Supervision:

On June 8, 2004, the SEC adopted rule amendments under the Securities Exchange Act of 1934 that establish a voluntary, alternative method of computing deductions to net capital for certain broker-dealers. These amendments are intended to reduce regulatory capital costs for broker-dealers by allowing very highly capitalized firms that have comprehensive internal controls and risk management practices in place to use their mathematical risk models to calculate certain regulatory capital charges. Further, these amendments establish consolidated supervision of the broker-dealer’s holding company on a group-wide basis. The rule amendments respond in part to the European Union (“EU”) Financial Conglomerates (or “Financial Groups”) Directive effective from January 1, 2005. Under that directive, financial groups that conduct business through regulated financial entities in the EU must demonstrate that they are subject to equivalent consolidated supervision at the ultimate holding company level. In respect of the EU Financial Groups Directive, the UK Financial Services Authority has determined that the SEC undertakes equivalent consolidated supervision for Merrill Lynch.

The application filed with the SEC by MLPF&S, the firm’s principal U.S. broker-dealer, under the net capital rule amendments was approved on December 23, 2004. As a result, effective January 1, 2005 MLPF&S is able to use the alternative methods of computing market and credit risk capital charges, and, as a condition of using these methods, Merrill Lynch has consented to group-wide supervision by the SEC. As such, Merrill Lynch will compute allowable capital and allowances thereto; permit the SEC to examine the books and records of the holding company and any affiliate that does not have a principal regulator; and adopt various additional SEC reporting, record keeping, and notification requirements. Merrill Lynch is now referred to as a Consolidated Supervised Entity (“CSE”). Merrill Lynch expects that being a CSE will likely impose additional costs and impact decisions relative to monitoring capital adequacy.

Merrill Lynch continues to work closely with regulators to assess the impact of compliance with the new Basel II capital standards, which the Basel Committee on Banking Supervision adopted in June 2004. Merrill Lynch, like all other large financial services firms, is actively analyzing the Basel II framework and related implementation costs. As rules governing implementation of Basel II are released, Merrill Lynch expects to begin the process of complying with the new framework.

Regulation of Merrill Lynch Business Activities:

Certain aspects of Merrill Lynch's business, and the business of its competitors and the financial services industry in general, are subject to stringent regulation by U.S. Federal and state regulatory agencies and securities exchanges and by various non-U.S. government agencies or regulatory bodies, securities exchanges and central banks, each of which has been charged with the protection of the financial markets and the interests of those participating in those markets.

- These regulatory agencies in the United States include, among others, the SEC, the Commodity Futures Trading Commission ("CFTC"), the Federal Energy Regulatory Commission ("FERC"), the FDIC, the Municipal Securities Rulemaking Board ("MSRB"), the State of New Jersey Department of Banking and Insurance ("NJDBI"), the State of New York Banking Department ("NYSBD"), the State of Utah Department of Financial Institutions ("UTDFI") and the Office of Thrift Supervision ("OTS").
- Outside the United States, these regulators include the Financial Services Authority in the United Kingdom ("FSA"); the Irish Financial Services Regulatory Authority; the Federal Financial Supervisory Authority in Germany; the Commission Bancaire, the Comite des Establissements de Credit et des Enterprises d'Investissement and the Autorite des marches financiers in France; the Swiss Federal Banking Commission; the Johannesburg Securities Exchange; the Japanese Financial Services Agency; the Monetary Authority of Singapore; the Office of Superintendent of Financial Institutions in Canada; the National Securities Commission in Argentina; the Securities and Exchange Commission in Brazil; the National Securities and Banking Commission in Mexico; and the Securities and Futures Commission in Hong Kong, among many others.

Additional legislation and regulations, and changes in rules promulgated by the SEC or other U.S. Federal and state government regulatory authorities and self-regulatory organizations and by non-U.S. government regulatory agencies may directly affect the manner of operation and profitability of Merrill Lynch. Certain of the operations of Merrill Lynch are subject to compliance with privacy regulations enacted by the U.S. Federal and state governments, the European Union, other jurisdictions and/or enacted by the various self-regulatory organizations or exchanges.

United States Regulatory Oversight and Supervision

Broker Dealer Regulation:

MLPF&S and certain other subsidiaries of ML & Co. are registered as broker-dealers with the SEC and as such are subject to regulation by the SEC and by self-regulatory organizations, such as securities exchanges (including The New York Stock Exchange, Inc. ("NYSE")) and the National Association of Securities Dealers, Inc. ("NASD"). Certain Merrill Lynch subsidiaries and affiliates, including MLPF&S and the MLIM entities, are registered as investment advisers with the SEC.

The Merrill Lynch entities that are broker-dealers registered with the SEC are subject to Rule 15c3-1 under the Securities Exchange Act of 1934 ("Exchange Act") which is designed to measure the general financial condition and liquidity of a broker-dealer. Under this rule, these entities are required to maintain the minimum net capital deemed necessary to meet broker-dealers' continuing commitments to customers and others. Under certain circumstances, this rule limits the ability of such broker-dealers to allow withdrawal of such capital by ML & Co. or other Merrill Lynch affiliates. Additional information regarding certain net capital requirements is set forth in Note 15 to the Consolidated Financial Statements in the 2004 Annual Report.

In 2004 the SEC approved rule changes by the NYSE and the NASD relating to business continuity and contingency planning. Both the NYSE and NASD rules require member firms to: develop and maintain business continuity plans identifying procedures to be followed in the event of an emergency or significant business disruption; conduct annual reviews to determine whether modifications to their plans are necessary; provide customers with a summary of the plans at account opening and upon request; and designate a senior officer (two senior officers in the case of the NASD) as the contact in case of an emergency. Merrill Lynch has established plans and procedures designed to comply with these new rules.

In 2003 Merrill Lynch formed the Special Structured Products Committee as part of its agreement with the Department of Justice. This Committee, which is comprised of senior managers across business, support and risk functions, reviews a variety of transactions with the objective of advancing the appropriateness and integrity of client transactions.

Broker-dealers are also subject to other regulations covering the operations of their business, including sales and trading practices, use of client funds and securities and the conduct of directors, officers and employees. Broker-dealers are also subject to regulation by state securities administrators in those states where they do business. Violations of the regulations governing the actions of a broker-dealer can result in the revocation of broker-dealer licenses, the imposition of censures or fines, the issuance of cease and desist orders and the suspension or expulsion from the securities business of a firm, its officers or its employees. The SEC and the national securities exchanges emphasize in particular the need for supervision and control by broker-dealers of their employees.

Sarbanes-Oxley and Related Rules:

Aspects of Merrill Lynch's public disclosure, corporate governance principles and the roles of auditors and counsel are subject to the Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley") and certain related regulations and rules proposed and/or adopted by the SEC, the NYSE and other self-regulatory organizations. Sarbanes-Oxley requirements include requiring our Chief Executive Officer and Chief Financial Officer to certify that Merrill Lynch's financial information is fairly presented and fully complies with disclosure requirements. Additionally, they must evaluate the effectiveness of disclosure controls and procedures and disclose the results of their evaluation. Additional areas of focus as a result of Sarbanes-Oxley include: disclosures of off-balance sheet arrangements and contractual obligations; management's assessment of internal controls and procedures for financial reporting; the adoption of a code of ethics for the Chief Executive Officer and senior financial and accounting officers; and disclosure of whether the audit committee of our Board of Directors includes an audit committee financial expert. Related rules proposed by the NYSE and other self regulatory organizations were approved by the SEC in 2003 and 2004 and require that the Chief Executive Officer certify compliance with applicable corporate governance standards. These rules require listed companies to, among other items, adopt corporate governance guidelines and a code of business conduct, tighten applicable criteria for determining Board, director and audit committee member independence, and increase the authority and responsibilities of the audit committee.

Section 404 of Sarbanes-Oxley requires that Merrill Lynch's management make an assertion as to the effectiveness of its internal control over financial reporting in the 2004 Annual Report. Merrill Lynch's independent auditors are also required to attest to management's assessment and to render an audit report on the effectiveness of Merrill Lynch's internal control over financial reporting, each of which is to be included in this Report. In preparation for this requirement, during 2003, Merrill Lynch formed a Project Management Office, to facilitate ongoing internal control reviews, coordinate the documentation process for these reviews, provide direction to the business and control groups involved in this initiative and assist in the assessment and remediation of any identified weaknesses in internal controls over financial reporting. Merrill Lynch also formed a Steering Committee comprised of senior management from Merrill Lynch's Finance, Corporate Audit, Risk Management, Operations, Technology and Legal functions. This Committee is responsible for reviewing the progress of the Sarbanes-Oxley Section 404 compliance initiative and directing the efforts of the Project Management Office. During 2004, Merrill Lynch conducted training for business and control groups, documented its processes and also conducted internal control reviews. For a discussion of Section 404 of Sarbanes-Oxley see *Controls and Procedures* in Part II, Item 9A of this Report.

Mutual Fund Industry Regulation:

During 2003 and continuing into 2004, abuses by certain participants in the mutual fund industry, including those relating to market timing, late trading, selective disclosure, and certain sales related practices prompted legislative and regulatory scrutiny of a wide range of fund-related activities. This scrutiny resulted in the adoption of new rules and a number of legislative and regulatory proposals relating to fund practices. In this regard, the SEC proposed rules designed to strengthen existing prohibitions relating to late trading and adopted rules to require enhanced disclosure and supervision of market timing policies and pricing. In addition, the SEC proposed and adopted rules requiring additional disclosure concerning portfolio managers, breakpoint discounts on the sale of fund shares, and the process for approving advisory contracts, as well as enhanced periodic reports. The SEC also adopted and proposed additional rules requiring corporate governance changes including the adoption of compliance policies and requiring that funds designate a single chief compliance officer. It is expected that these actions and any additional legislative and regulatory actions taken to address abuses will affect the manner in which funds and their service providers conduct business and could increase fund expenses and therefore adversely affect the profitability of these businesses.

Research Related Regulation:

The SEC's Regulation Analyst Certification ("Regulation AC") requires research analysts to certify that the opinions expressed by them in research reports accurately reflect their views on the securities and issuers discussed in the research report and that they have not been compensated for the specific recommendations or views contained in the report. Regulation AC also requires analysts to make substantially equivalent certifications on a quarterly basis to their firm with respect to recommendations and views expressed on securities and issuers by them in public appearances during that quarter.

Additionally, the NYSE and the NASD adopted new rules relating to equity research, including a new registration requirement for equity analysts. Also, pursuant to the requirements of Sarbanes-Oxley, the NYSE and NASD adopted rules requiring additional disclosures to be made in research reports and in analysts' public appearances relating to potential conflicts of interest that may arise from the firm's non-investment banking business relationships with covered companies. These new disclosure rules became effective in April 2004. Additionally, Merrill Lynch has added disclosure on research reports to provide investors with additional information about potential conflicts of interest in response to the requirements of regulators outside of the U.S.

In connection with global regulatory settlements relating to investment banking and research practices, Merrill Lynch and several other major investment banking firms adopted a policy of prohibiting the allocation of "hot issue" initial public offerings to executive officers or directors of any U.S. public company, or their immediate family members.

Client Information Regulation:

Broker-dealers and certain other financial institutions are subject to the USA PATRIOT Act of 2001 (the "USA PATRIOT Act"), which amends the Bank Secrecy Act and was designed to detect and deter money laundering and terrorist financing activity. The USA PATRIOT Act requires broker-dealers and other financial institutions to establish anti-money laundering compliance programs which must include policies and procedures to verify client identity at account opening and to detect and report suspicious transactions to the government. Institutions subject to the Act must also implement specialized employee training programs, designate an anti-money laundering compliance officer and submit to independent audits of the effectiveness of the compliance program. Merrill Lynch has established policies, procedures and systems designed to comply with these regulations. Among other initiatives, Merrill Lynch adopted a Customer Identification Program in October 2003. Compliance with the Act may result in additional financial expenses for financial institutions, including Merrill Lynch, and may subject firms to additional liability.

Additionally, in May 2003, the SEC's Client Data Validation rule became effective requiring brokerage firms to provide clients with a confirmation of certain data used for making investment recommendations or suitability determinations with respect to an account.

Financial institutions, including Merrill Lynch, have also become subject to increasingly comprehensive legal requirements concerning the use and protection of certain client information including those adopted pursuant to the Gramm-Leach-Bliley Act in the United States and the European Union Data Protection Directive in EU countries. Merrill Lynch has adopted additional policies and procedures in response to such requirements and may experience incremental operating and technology costs as a result.

Additional Regulation of Certain U.S. Entities:

MLPF&S and ML PRO are registered futures commission merchants and, as such, are regulated by the CFTC and the National Futures Association ("NFA"). The CFTC and the NFA impose net capital requirements on these companies. In addition, these companies are subject to the rules of the futures exchanges and clearing associations of which they are members.

MLCI is subject to regulation by the FERC, CFTC and other agencies with respect to certain aspects of its activities. MLCI is also a member of the New York Mercantile Exchange and is subject to its rules.

Each of Merrill Lynch Alternative Investments LLC and Merrill Lynch Investment Managers LLC is registered with the CFTC as a commodity pool operator and a commodity trading advisor and each is a member of the NFA in such capacities. IQ Advisors is registered with the CFTC.

MLGSI is subject to regulation by the NASD and, as a member of the Chicago Board of Trade, is subject to the rules of that exchange. It is required to maintain minimum net capital pursuant to rules of the U.S. Department of the Treasury. Merrill Lynch's municipal finance professionals are subject to various trading and underwriting regulations of the MSRB.

Merrill Lynch's banking and lending activities are supervised and regulated by a number of different Federal and state regulatory agencies. MLBT is regulated primarily by the NJDBI and the FDIC.

MLBUSA is regulated primarily by the UTDFI and the FDIC. MLBFS, MLCC and Merrill Lynch Private Finance Ltd. are wholly-owned subsidiaries of MLBUSA, and certain of their activities are regulated and subject to examination by the FDIC and the UTDFI. In addition to Utah and the FDIC, MLCC is also licensed or registered to conduct its lending activities in 29 other jurisdictions and MLBFS is licensed or registered in eight jurisdictions, subjecting each to regulation and examination by the appropriate authorities in those jurisdictions. Merrill Lynch Trust Company, FSB, a federal savings bank, is subject to regulation by the OTS and, in addition, is an investment adviser subject to regulation by the SEC.

Merrill Lynch's insurance subsidiaries are subject to state insurance regulatory supervision. ML Life is subject to regulation and supervision by the New York State Insurance Department. MLLIC is subject to regulation and supervision by the Insurance Department of the State of Arkansas. Both MLLIC and ML Life are subject to similar regulation in the other states in which they are licensed.

MLML is licensed or registered to conduct its commercial mortgage conduit business and its residential mortgage trading business in 15 jurisdictions.

Non-U.S. Regulatory Oversight and Supervision

Merrill Lynch's business is also subject to extensive regulation by various non-U.S. regulators including governments, securities exchanges, central banks and regulatory bodies. Certain Merrill Lynch subsidiaries are regulated as broker-dealers under the laws of the jurisdictions in which they operate. Subsidiaries engaged in banking and trust activities outside the United States are regulated by various government entities in the particular jurisdiction where they are chartered, incorporated and/or conduct their business activities. In some cases, the legislative and regulatory developments outside the U.S. applicable to these subsidiaries may have a global impact.

Merrill Lynch Bank (Suisse) S.A. is regulated by the Swiss Federal Banking Commission, the FSA and the NYSBD. MLBT Cayman is regulated by the Cayman Monetary Authority and the Florida Department of Banking. Banco Merrill Lynch S.A. is also regulated by the Brazilian Central Bank. Additionally, Merrill Lynch Reinsurance Solutions Ltd. and Merrill Lynch Credit Reinsurance Limited, subsidiaries engaged in insurance, reinsurance and financial products activities, are regulated by the Bermuda Registrar of Companies.

MLI and MLIB (including certain subsidiaries of MAL) are regulated and supervised in the United Kingdom by the FSA and in certain other jurisdictions, by local regulators. MLCMBL, which engages in the derivatives business, is regulated by the Irish Financial Services Regulatory Authority. MLIB and MLCMBL are also subject to regulation by the NYSBD. Merrill Lynch's activities in Australia are regulated by the Australian Securities and Investments Commission or the Australian Prudential Regulatory Authority, and its Hong Kong and Singapore operations are regulated and supervised by the Hong Kong Securities and Futures Commission and The Monetary Authority of Singapore, respectively. Merrill Lynch's Japanese business is subject to the regulation of the Financial Services Agency as well as other Japanese regulatory authorities.

MLCE is a member of the International Petroleum Exchange, Nordpool and other exchanges and is subject to their rules. MLCETL is regulated in the United Kingdom by the FSA.

Merrill Lynch Canada Inc. is an investment dealer in Canada and is regulated under the laws of the Canadian provinces by securities commissions and by the Investment Dealers Association of Canada. It is also a member of all major Canadian exchanges and is subject to their rules and regulations.

The business of MLIM Limited and other non-U.S. investment advisors is regulated by a number of non-U.S. regulatory agencies or bodies. Their activities in the United Kingdom are regulated by the FSA and, in other jurisdictions, by local regulators. Several of MLIM's international funds (including MLIIF) are regulated for public distribution under the 1985 European Directive on Undertakings for Collective Investment in Transferable Securities ("UCITS"). This directive was amended in October 2001 by two further directives ("UCITS III") and the changes are gradually being implemented by the Member States of the European Union. All UCITS funds must be or have converted to UCITS III by a certain date. The relevant date for MLIIF is February 2007. MLIIF intends to convert to UCITS III in 2005.

Merrill Lynch's activities in Mexico, Brazil and Argentina are regulated by their respective securities commissions and exchanges as well as other regulatory authorities.

ITEM 2. PROPERTIES

Merrill Lynch has offices in various locations throughout the world. Other than those described below as being owned, substantially all Merrill Lynch offices are located in leased premises. Facilities owned or occupied by Merrill Lynch are believed to be adequate for the purposes for which they are currently used and are well maintained. Set forth below is the location and the approximate square footage of the principal facilities of Merrill Lynch. Each of these principal facilities supports various Merrill Lynch business segments. Information regarding Merrill Lynch's property lease commitments is set forth in "Leases" in Note 11 to the Consolidated Financial Statements in the 2004 Annual Report.

Principal Facilities in the United States:

Merrill Lynch's executive offices and principal administrative offices are located in leased premises at the World Financial Center in New York City. Merrill Lynch affiliates lease the North Tower (1,800,000 square feet) and the South Tower (2,500,000 square feet); both leases expire in 2013. Another Merrill Lynch affiliate is a partner in the partnership that holds the ground lessee's interest in the North Tower. As of December 2004, Merrill Lynch occupies the entire North Tower and approximately 20% of the South Tower.

In New York City, MLPF&S leases 662,000 square feet in lower Manhattan. The lease for these premises expires in 2007. Merrill Lynch occupies 80% of a 760,000 square foot building at 222 Broadway that is owned by a Merrill Lynch subsidiary. In New Jersey, a Merrill Lynch affiliate owns a 669,000 square foot office building in Plainsboro. In August 2004 this affiliate sold the adjacent hotel, conference and training center. In March 2005, another Merrill Lynch affiliate sold 300 Davidson Avenue in Somerset, New Jersey. MLPF&S leases 590,000 square feet (reduced to 178,511 square feet after March 2007) at 101 Hudson Street in Jersey City. This lease expires in 2012 unless certain renewal rights are exercised. A Merrill Lynch affiliate leases and occupies, pursuant to an operating lease with an unaffiliated lessor, 1,251,000 square feet of office space and 273,000 square feet of ancillary buildings in Hopewell, New Jersey. The Merrill Lynch affiliate that is the lessee under such operating lease owns the underlying land upon which the Hopewell facilities are located. Merrill Lynch affiliates own a 54-acre campus in Jacksonville, Florida, with four buildings (a large portion of one is leased to a third party).

Principal Facilities Outside the United States:

Merrill Lynch occupies various sites in London. Merrill Lynch owns and occupies 100% of its 560,000 square foot London headquarters facility known as Merrill Lynch Financial Centre. In addition to the Merrill Lynch Financial Centre, Merrill Lynch leases approximately 561,473 square feet in other London locations with various terms, the longest of which lasts until 2015. It occupies 339,104 square feet of this space and has either sublet or is currently marketing the remainder. In Tokyo, a Merrill Lynch affiliate leases and occupies 280,000 square feet until 2014 for its headquarters.

ITEM 3. LEGAL PROCEEDINGS

ML & Co., certain of its subsidiaries, including MLPF&S, and other persons have been named as parties in various legal actions and arbitration proceedings arising in connection with the operation of ML & Co.'s businesses. In most cases, plaintiffs seek unspecified damages and other relief. These actions include the following:

IPO Allocation Litigation:

In re Initial Public Offering Antitrust Litigation: Merrill Lynch is named as one of ten underwriting defendants in this consolidated class action filed in the United States District Court for the Southern District of New York. The complaint alleges that the defendants and unnamed co-conspirators violated antitrust laws by conspiring to "require from customers consideration in addition to the underwriters' discount for allocation of shares of initial public offerings of certain technology companies . . . and to inflate the aftermarket prices for such securities." On November 3, 2003, the district court granted the defendants' motions to dismiss the complaint. The parties are awaiting a decision on plaintiffs' appeal of the dismissal to the United States Court of Appeals for the Second Circuit.

In re Initial Public Offering Securities Litigation: Merrill Lynch has been named as one of the defendants in approximately 110 securities class action complaints alleging that dozens of underwriting defendants, including Merrill Lynch, artificially inflated and maintained the stock prices of the relevant securities by creating an artificially high aftermarket demand for shares. On October 13, 2004, the district court issued an order allowing certain of these cases to proceed against the underwriters as class actions. The parties are awaiting a decision on whether the United States Court of Appeals for the Second Circuit will decide the underwriters' appeal of this decision. On February 15, 2005, the district court approved a settlement between plaintiffs and issuer defendants under which insurers of the issuers have guaranteed recovery of at least $1 billion by class members, and the settling issuer defendants have assigned to the class members certain claims they may have against the underwriters.

IPO Underwriting Fee Litigation:

In re Public Offering Fee Antitrust Litigation and In re Issuer Plaintiff Initial Public Offering Fee Antitrust Litigation: Merrill Lynch is one of approximately two dozen defendants that have been named in purported class actions filed in the United States District Court for the Southern District of New York alleging that underwriters conspired to fix the “fee” paid to purchase certain initial public offering securities at 7% in violation of antitrust laws. These complaints have been filed by both investors and certain issuers in initial public offerings. On September 25, 2002, the court denied defendants’ motion to dismiss the issuer claims. On February 24, 2004, the court granted defendants’ motion to dismiss the investor claims for damages and penalties, and permitted the case to proceed only with regard to claim for injunctive relief. The parties are awaiting a decision on plaintiffs’ September 16, 2004 motions for class certification in both the investor and issuer class actions.

Enron Litigation:

Newby v. Enron Corp. et. al.: On April 8, 2002, Merrill Lynch was added as a defendant in a consolidated class action filed in the United States District Court for the Southern District of Texas against 69 defendants purportedly on behalf of the purchasers of Enron’s publicly traded equity and debt securities during the period October 19, 1998 through November 27, 2001. The complaint alleges, among other things, that Merrill Lynch engaged in improper transactions in the fourth quarter of 1999 that helped Enron misrepresent its earnings and revenues in the fourth quarter of 1999. The complaint also alleges that Merrill Lynch violated the securities laws in connection with its role as an underwriter of Enron stock, its research analyst coverage of Enron stock, and its role as placement agent for and limited partner in an Enron-controlled partnership called LJM2. On December 19, 2002 and March 29, 2004, the court denied Merrill Lynch’s motions to dismiss. The defendants, including Merrill Lynch, are awaiting a decision on plaintiffs’ motion for class certification. A trial date has been set for October 16, 2006.

In re Enron Corp.: On September 24, 2003, Enron Corporation filed an adversary proceeding in the United States Bankruptcy Court for the Southern District of New York against a large collection of financial institutions, including Merrill Lynch. An amended complaint was filed on December 5, 2003. The complaint alleges that the conduct of Merrill Lynch and other bank defendants contributed to Enron’s bankruptcy.

Other Litigation: Dozens of other actions have been brought against Merrill Lynch and other investment firms in connection with their Enron-related activities, including actions by state pension plans and other state investment entities that purchased Enron securities and actions by other purchasers of Enron securities. There has been no adjudication of the merits of these claims.

Government Actions: On November 3, 2004, a jury in Houston, Texas convicted four former Merrill Lynch employees of criminal misconduct in connection with a Nigerian barge transaction that the government alleged helped Enron inflate its 1999 earnings by $12 million. The jury also found that the transaction led to investor losses of $13.7 million. In 2003, Merrill Lynch agreed to pay $80 million to settle SEC charges that it aided and abetted Enron’s fraud by engaging in two improper year-end transactions in 1999, including the Nigerian barge transaction. The $80 million paid in connection with the settlement with the SEC will be made available to settle investor claims. In September 2003, the United States Department of Justice agreed not to prosecute Merrill Lynch for crimes that may have been committed by its former employees related to certain transactions with Enron, subject to certain understandings, including Merrill Lynch’s continued cooperation with the Department, its acceptance of responsibility for conduct of its former employees, and its agreement to adopt and implement new policies and procedures related to the integrity of client and counter-party financial statements, complex structured finance transactions and year-end transactions.

Research Litigation:

In re Merrill Lynch & Co., Inc. Research Reports Securities Litigation: Merrill Lynch has been named in over 30 research-related class actions brought in or transferred to the United States District Court for the Southern District of New York. These actions challenge the independence and objectivity of Merrill Lynch’s research recommendations and related disclosures.

On April 10, 2003 and May 6, 2003, the court granted Merrill Lynch’s motions to dismiss several actions filed under state law. Plaintiffs appealed the dismissal of two of these actions to the United States Court of Appeals for the Second Circuit. On January 11, 2005, the Court of Appeals affirmed the dismissals in part and vacated the dismissals in part, but did not rule on the merits of those claims. Merrill Lynch intends to move to dismiss the claims filed in state court.

On June 30, 2003, the district court granted Merrill Lynch's motion to dismiss the claims related to 24/7 Real Media, Inc. and Interliant, Inc. On January 20, 2005, the Court of Appeals upheld the dismissals of the 24/7 Real Media and Interliant complaints on the ground that plaintiffs had failed to plead facts showing that the losses they incurred were caused by the conduct they alleged.

On July 2, 2003, the district court granted Merrill Lynch's motion to dismiss the claims related to the Global Technology Fund. On October 22, 2003, the court granted Merrill Lynch's motion to dismiss the claims related to the Focus Twenty Fund. Plaintiffs have appealed the dismissals to the United States Court of Appeals for the Second Circuit. On October 29, 2003, the court granted Merrill Lynch's motion to dismiss the claims related to eToys, Inc., Homestore.com, Internet Strategies Fund, iVillage Inc., Lifeminders, LookSmart Ltd., Openwave Systems, Inc., Pets.com, Inc., and Quokka Sports. Merrill Lynch has moved or expects to move to dismiss the remaining research class actions.

In re Merrill Lynch Tyco Research Securities Litigation: On June 4, 2003, shareholders of Tyco International filed a class action in the United States District Court for the Southern District of New York alleging that a former Merrill Lynch research analyst engaged in a variety of improper practices in connection with research analysis on Tyco International. On February 18, 2004, the court granted Merrill Lynch's motion to dismiss the claims related to Tyco. Plaintiffs have appealed the dismissal of their action to the United States Court of Appeals for the Second Circuit.

State of West Virginia v. Bear Stearns, et al: On or about June 27, 2003, the Attorney General for the State of West Virginia brought an action against a number of large securities firms, including Merrill Lynch, that participated in an April 28, 2003 settlement with federal and state regulators regarding research-related conduct. The action, filed in the West Virginia State Court, alleges that the defendants' research practices violated the West Virginia Consumer Credit and Protection Act. On May 19, 2004, the court denied defendants' motion to dismiss, but agreed to certify the principal issue to the West Virginia Supreme Court. On January 24, 2005, the Supreme Court of Appeals accepted review of the certified question.

Global Crossing Litigation:

In re Global Crossing Ltd. Securities Litigation: On or about January 28, 2003, several dozen entities, including Merrill Lynch, were named as defendants in a class action filed in the United States District Court for the Southern District of New York. Plaintiffs asserted claims against Merrill Lynch in connection with a March 1999 fairness opinion that Merrill Lynch issued to the Board of Directors of Global Crossing in connection with its acquisition of Frontier Corporation, as well as in connection with two Global Crossing securities offerings that took place in April 2000 in which Merrill Lynch was a member of the underwriting syndicate. On December 18, 2003, the court granted Merrill Lynch's motion to dismiss the claims related to the issuance of the fairness opinion but denied Merrill Lynch's motion to dismiss with regard to its role as an underwriter for the April 2000 offerings.

Allegheny Energy Litigation:

Merrill Lynch v. Allegheny Energy, Inc.: On September 24, 2002, Merrill Lynch filed an action in the United States District Court for the Southern District of New York against Allegheny Energy, Inc. The complaint alleges that Allegheny owes Merrill Lynch the final $115 million payment due in connection with Allegheny's purchase of Merrill Lynch's energy trading business and assets in 2001. The following day, Allegheny filed an action against Merrill Lynch in the Supreme Court of the State of New York claiming misrepresentations in connection with Merrill Lynch's sale of the energy trading business to Allegheny. On November 24, 2003, the court denied Merrill Lynch's motion to dismiss. Merrill Lynch has filed a motion for summary judgment, and is awaiting a decision on that motion. If the motion is not granted, a trial is expected to take place in May 2005.

Boston Chicken Litigation:

BCI Trustee Litigation: The Plan Trustee, appointed by the Boston Chicken Inc. ("BCI") Plan of Reorganization, has filed claims against numerous defendants, including Merrill Lynch and other underwriters, alleging damages to BCI resulting from debt and equity offerings in which the underwriters participated between 1993 and 1997. The Plan Trustee's suit is pending in federal district court in Phoenix, Arizona. In December 2001, the court denied Merrill Lynch's and other defendants' motions to dismiss, and in January 2005, it denied defendants' motions for summary judgment. Discovery is complete. No trial date has yet been set by the court.

Worldcom ERISA Litigation:

In re Worldcom ERISA Litigation: On December 20, 2002, plaintiffs filed a Consolidated Master Class Action Complaint in the United States District Court for the Southern District of New York against approximately 20 defendants, including Merrill Lynch Trust Co. of America ("ML Trust") in its capacity as a directed trustee for the Worldcom 401(k) Salary Savings Plan. The complaint, brought on behalf of participants in the Worldcom 401(k) Salary Savings Plan and its predecessor plans, alleges as to ML Trust that it should have taken steps to stop Plan participants from investing in or failing to liquidate their investments in Worldcom securities. On February 1, 2005, the court granted Merrill Lynch's motion for summary judgment.

Sale of Mutual Fund Shares:

Since May 2004, four putative class actions have been filed in the United States District Court for the Southern District of New York against Merrill Lynch. These cases allege that Merrill Lynch failed to disclose incentives to mid-level managers to maximize the sale of mutual funds carrying the Merrill Lynch brand name and that these mid-level managers pressured financial advisers to maximize the sale of these funds. In addition, Merrill Lynch is a defendant in a putative class action captioned *Thomas J. DeBenedictis v. Merrill Lynch & Co., et al.*, which was filed in the United States District Court for the District of New Jersey. This putative class action alleges that the registration statements and prospectuses for the Merrill Lynch Funds should have stated, but omitted to state, that for certain investors Class B shares are inherently inferior to Class A, C, and D shares. Merrill Lynch is seeking the dismissal of these actions.

Market Timing Class Action:

In October 2004, a securities class action was filed against a large number of defendants, including Merrill Lynch, in the United States District Court for the District of Maryland and was subsequently consolidated as part of *In re Mutual Funds Investment Litigation,* MDL 1586. With regard to Merrill Lynch, the complaint alleges that between November 1, 1998 and September 3, 2003, Merrill Lynch violated federal securities laws in connection with serving as a broker-dealer intermediary on behalf of certain other defendants who allegedly engaged in market timing trading strategies in mutual fund shares. Merrill Lynch is seeking dismissal of this action.

Variable Annuities Class Action:

On January 21, 2005, purchasers of variable annuity contracts filed a securities class action against Merrill Lynch in the United States District Court for the Southern District of California with regard to Merrill Lynch's alleged failure to disclose revenue sharing arrangements in the sale of variable annuity contracts. Merrill Lynch anticipates that it will seek the dismissal of this action.

Blum v. Merrill Lynch, et al.:

Merrill Lynch is a defendant in an action filed by Scott Blum, the founder and CEO of Buy.com, claiming that in 2000 Merrill Lynch wrongfully persuaded him to participate in an initial public offering ("IPO") for Buy.com rather than to sell his shares of Buy.com privately. Mr. Blum claims that he could have sold his company privately for a higher price than he was able to receive for his shares of Buy.com after his shares became tradeable six months after the Buy.com IPO, by which time the price of internet stocks had fallen. The action is pending in the United States District Court for the Central District of California. On April 1, 2004, the court denied Merrill Lynch's motion to dismiss. The matter is in discovery, and a trial date has been set for November 8, 2005.

Regulatory Settlements:

In March 2005, Merrill Lynch reached agreements with the State of New Jersey and the New York Stock Exchange and reached an agreement in principle with the State of Connecticut pursuant to which Merrill Lynch, without admitting or denying the allegations, consented to a settlement that included findings that it failed to maintain certain books and records and to reasonably supervise a team of former FAs who facilitated improper market timing by a hedge fund client. Merrill Lynch terminated the FAs in October 2003, brought the matter to the attention of regulators, and cooperated fully in the regulators' review. The settlement will result in aggregate payments of $13.5 million.

In March 2005, Merrill Lynch reached an agreement in principle with the New York Stock Exchange pursuant to which Merrill Lynch, without admitting or denying the allegations, will consent to a settlement that includes findings with regard to certain matters relating to the failure to deliver prospectuses for certain auction rate preferred shares and open-end mutual funds; the failure to deliver product descriptions with regard to certain exchange traded funds; the failure to ensure that proper registration qualifications were obtained for certain personnel; issues with regard to the retention, retrieval and review of e-mails;

isolated lapses in branch office supervision; late reporting of certain events such as customer complaints and arbitrations; the failure to report certain complaints in quarterly reports to the NYSE due to a systems error; and partial non-compliance with Continuing Education requirements. The settlement will result in a payment of $10 million to the NYSE.

Shareholder Derivative Action:

In the shareholder derivative action discussed below, ML & Co. is named as a nominal defendant because the action purports to be brought on behalf of ML & Co. Any recovery obtained by plaintiffs would be for the benefit of ML & Co.

Fink v. Komansky, et. al., a derivative action instituted on or about January 17, 2003 in the United States District Court for the Southern District of New York, alleges breach of fiduciary duty by ML & Co. directors in connection with Merrill Lynch's involvement with Enron. Damages in an unspecified amount are sought. On December 8, 2004, the court granted Merrill Lynch's motion to dismiss. Plaintiff has appealed to the United States Court of Appeals for the Second Circuit.

Other:

Merrill Lynch has been named as a defendant in various other legal actions, including arbitrations, class actions, and other litigation arising in connection with its activities as a global diversified financial services institution. The general decline of equity securities prices between 2000 and 2003 resulted in increased legal actions against many firms, including Merrill Lynch, and has resulted in higher professional fees and litigation expenses than those incurred in the past.

Some of the legal actions include claims for substantial compensatory and/or punitive damages or claims for indeterminate amounts of damages. In some cases, the issuers that would otherwise be the primary defendants in such cases are bankrupt or otherwise in financial distress. Merrill Lynch is also involved in investigations and/or proceedings by governmental and self-regulatory agencies. The number of these investigations has also increased in recent years with regard to many firms, including Merrill Lynch.

Given the number of these matters, some are likely to result in adverse judgments, settlements, penalties, injunctions, fines, or other relief. Merrill Lynch believes it has strong defenses to, and where appropriate, will vigorously contest many of these matters. In accordance with SFAS No. 5, *Accounting for Contingencies,* when resolution of cases is both probable and estimable Merrill Lynch will accrue a liability. In many lawsuits and arbitrations, including almost all of the class action lawsuits described above, it is not possible to determine whether a liability has been incurred or to estimate the ultimate or minimum amount of that liability until the case is close to resolution, in which case no accrual is made until that time. In view of the inherent difficulty of predicting the outcome of such matters, particularly in cases in which claimants seek substantial or indeterminate damages, Merrill Lynch cannot predict what the eventual loss or range of loss related to such matters will be. Merrill Lynch continues to assess these cases and believes, based on information available to it, that the resolution of these matters will not have a material adverse effect on the financial condition of Merrill Lynch as set forth in the Consolidated Financial Statements, but may be material to Merrill Lynch's operating results or cash flows for any particular period and may impact ML & Co.'s credit ratings.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to a vote of security holders during the 2004 fourth quarter.

EXECUTIVE OFFICERS OF MERRILL LYNCH & CO., INC.

The following table sets forth the name, age, present title, principal occupation and certain biographical information for the past five years for ML & Co.'s executive officers, all of whom have been elected by the ML & Co. Board of Directors. Unless otherwise indicated, the officers listed are of ML & Co. Under ML & Co.'s By-Laws, elected officers are elected annually to hold office until their successors are elected and qualify or until their earlier resignation or removal.

E. Stanley O'Neal (53)

Chairman of the Board since April 2003; Chief Executive Officer since December 2002; President and Chief Operating Officer since July 2001; Executive Vice President from April 1997 to July 2001; President of U.S. Private Client (now a part of Global Private Client) from February 2000 to July 2001; Chief Financial Officer from March 1998 to February 2000.

Rosemary T. Berkery (51)

Executive Vice President since October 2001; General Counsel since September 2001; Senior Vice President and Head of U.S. Private Client (now a part of Global Private Client) Marketing and Investments from June 2000 to September 2001; Co-Director of Global Securities Research and Economics Group from April 1997 to June 2000.

Robert C. Doll (50)

Senior Vice President since April 2002; Chief Investment Officer and President of Merrill Lynch Investment Managers ("MLIM") since September 2001; Co-Head MLIM Americas from November 1999 to September 2001; Chief Investment Officer for Equities for MLIM Americas from June 1999 to November 1999; prior to joining Merrill Lynch, Chief Investment Officer of OppenheimerFunds, Inc. from January 1999 to June 1999.

Ahmass L. Fakahany (46)

Executive Vice President since December 2002; Chief Financial Officer since November 2002; Chief Operating Officer for Global Markets and Investment Banking ("GMI") from October 2001 to November 2002; Senior Vice President and Finance Director from December 1998 to October 2001.

Gregory J. Fleming (42)

Executive Vice President since October 2003; President of GMI since August 2003; Chief Operating Officer of the Global Investment Banking Group of GMI from January 2003 to August 2003; Co-Head of the Global Financial Institutions Group of GMI from April 2001 to August 2003; Head of the United States Financial Institutions Group of GMI from June 1999 to April 2001; Managing Director of the Global Investment Banking Group of GMI from February 1999 to October 2003.

James P. Gorman (46)

Executive Vice President since July 1999; President of Global Private Client since November 2002; President of U.S. Private Client (now a part of Global Private Client) from September 2001 to November 2002; Head of U.S. Private Client Relationship Group from May 2000 to September 2001; Chief Marketing Officer from July 1999 to May 2000; Joined Merrill Lynch in July 1999. Prior to joining Merrill Lynch, Senior Partner, Financial Institutions Practice of McKinsey & Company, Inc. from June 1997 to July 1999.

Do Woo Kim (42)

Executive Vice President since October 2003; President of GMI since August 2003; Head of the Global Debt Markets Group of GMI from October 2001 to August 2003; Managing Director and Head of Global Enterprise Risk Management within the Global Debt Markets Group of GMI from April 2000 to October 2001; Head of the Fixed Income business in Japan from July 1997 to March 2000.

Robert J. McCann (47)

Executive Vice President and Vice Chairman, Wealth Management Group since August 2003; Vice Chairman and Director of Distribution and Marketing for AXA Financial from March 2003 to August 2003; Head of the Global Securities Research and Economics Group of Merrill Lynch from October 2001 to March 2003; Chief Operating Officer of GMI from September 2000 to October 2001; Head of the Global Institutional Client Division of GMI from August 1998 to September 2000.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The principal market on which our common stock is traded is the New York Stock Exchange. Our common stock also is listed on the Chicago Stock Exchange, Pacific Exchange, Euronext Paris S.A., London Stock Exchange and Tokyo Stock Exchange. Information relating to the high and low sales prices per share for each full quarterly period within the two most recent fiscal years, the approximate number of holders of record of common stock, and the frequency and amount of cash dividends declared for the two most recent fiscal years, is set forth under the captions *Dividends Per Common Share* and *Stockholder Information* on page 102 of the 2004 Annual Report and such information is incorporated herein by reference. The table below sets forth the information with respect to purchases made by or on behalf of Merrill Lynch or any "affiliated purchaser" of our common stock during the quarter ended December 31, 2004.

Issuer Purchases of Equity Securities

(dollars in millions, except per share amounts)

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Approximate Dollar Value of Shares that May Yet be Purchased Under the Program[1]
Month #1 (Sept. 25 – Oct. 29)				
Capital Management Program	2,200,000	$ 52.83	2,200,000	$ 1,265
Employee Transactions	359,306	52.14	N/A	N/A
Month #2 (Oct. 30 – Nov. 26)				
Capital Management Program	2,250,000	55.90	2,250,000	$ 1,139
Employee Transactions	180,810	56.20	N/A	N/A
Month #3 (Nov. 27 – Dec. 31)				
Capital Management Program	1,837,000	58.36	1,837,000	$ 1,032
Employee Transactions	219,011	58.40	N/A	N/A
Total, December 31, 2004				
Capital Management Program	6,287,000	$ 55.55	6,287,000	$ 1,032
Employee Transactions[2]	759,127	54.91	N/A	N/A

1 At period-end. As part of Merrill Lynch's capital management, the board of directors authorized the repurchase of up to $2 billion of outstanding common shares under a program announced on February 10, 2004. Share repurchases under the program were made pursuant to open-market purchases, Rule 10b5-1 plans or privately negotiated transactions as market conditions warranted and at prices Merrill Lynch deemed appropriate. On July 13, 2004, the Board of Directors authorized the repurchase of an additional $2 billion of Merrill Lynch outstanding common shares.

2 Included in the total number of shares purchased are: (A) 754,942 shares purchased during the period by participants in the Merrill Lynch 401(k) Savings and Investment Plan ("401(k)") and the Merrill Lynch Retirement Accumulation Plan ("RAP"). Purchases under the 401(k) and the RAP are executed at the market price of Merrill Lynch's common stock at the time the transaction occurs. (B) 4,185 Restricted Shares withheld (under the terms of grants under employee stock compensation plans) to offset tax withholding obligations that occur upon vesting and release of Restricted Shares during the quarter. ML & Co.'s employee stock compensation plans provide that the value of the shares delivered or attested, or withheld, shall be the average of the high and low price of ML & Co.'s common stock (Fair Market Value) on the date the relevant transaction occurs.

ITEM 6. SELECTED FINANCIAL DATA

Selected financial data for the Registrant and its subsidiaries for each of the last five fiscal years is set forth in the financial table *Selected Financial Data* on page 16 of the 2004 Annual Report (excluding for this purpose the information set forth under the headings *Financial Ratios* and *Other Statistics*). Such information is incorporated herein by reference and should be read in conjunction with the *Consolidated Financial Statements* and the *Notes* thereto on pages 49 to 101 of the 2004 Annual Report.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's Discussion and Analysis of Financial Condition and Results of Operations is set forth on pages 17 to 44 of the 2004 Annual Report under the caption *Management's Discussion and Analysis* and is incorporated herein by reference. All of such information should be read in conjunction with the *Consolidated Financial Statements* and the *Notes* thereto on pages 49 to 101 of the 2004 Annual Report.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Quantitative and qualitative disclosure about market risk is set forth on pages 39 and 40 of the 2004 Annual Report under the caption *Management's Discussion and Analysis* and in Note 5 to the *Consolidated Financial Statements*, and is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The *Consolidated Financial Statements* of the Registrant and its subsidiaries, together with the *Notes* thereto and the *Report of Independent Registered Public Accounting Firm* thereon, are contained in the 2004 Annual Report on pages 47 to 101, and are incorporated herein by reference. In addition, the information on page 102 of the 2004 Annual Report under the caption *Quarterly Information* is incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

There were no changes in or disagreements with accountants on accounting and financial disclosure during the last two fiscal years.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

In 2002, ML & Co. formed a Disclosure Committee to assist with the monitoring and evaluation of our disclosure controls and procedures. ML & Co.'s Chief Executive Officer, Chief Financial Officer and Disclosure Committee have evaluated the effectiveness of ML & Co.'s disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this Report. Based on that evaluation, ML & Co.'s Chief Executive Officer and Chief Financial Officer have concluded that ML & Co.'s disclosure controls and procedures are effective as of the end of the period covered by this Report.

Management Report on Internal Control Over Financial Reporting

During 2003, Merrill Lynch formed a Project Management Office to facilitate ongoing internal control reviews, coordinate the documentation process for these reviews, provide direction to its business and control groups involved in this initiative and assist in the assessment and remediation of any identified weaknesses in internal control over financial reporting. Merrill Lynch also formed a Steering Committee comprised of senior management from Merrill Lynch's Finance, Corporate Audit, Risk Management, Operations, Technology and Legal functions. This Committee has been responsible for reviewing the progress of the Sarbanes-Oxley Section 404 compliance initiative and directing the efforts of the Project Management Office. During 2004, the Project Management Office and Steering Committee completed their review of documentation evidencing key controls, performed walkthroughs and conducted tests of controls and operating effectiveness in order to be in a position to express a view to management on the effectiveness of our internal control over financial reporting.

Management recognizes its responsibility for establishing and maintaining adequate internal control over financial reporting and has designed internal controls and procedures to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated statements and related notes in accordance with generally accepted accounting principles in the United States of America. Management assessed the effectiveness of Merrill Lynch's internal control over financial reporting as of December 31, 2004 and its report is included on pages 45 and 46 of the 2004 Annual Report under the caption *Management's Discussion of Financial Responsibility and Report on Internal Control Over Financial Reporting.* Management's report is incorporated herein by reference. Deloitte & Touche LLP, Merrill Lynch's independent registered public accounting firm, has audited management's assessment and the effectiveness of Merrill Lynch's internal control over financial reporting, and their report is included on pages 47 and 48 of the 2004 Annual Report under the caption *Report of Independent Registered Public Accounting Firm.* This report is also incorporated herein by reference.

Changes in Internal Control Over Financial Reporting

No change in ML & Co.'s internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) occurred during the fourth fiscal quarter of 2004 that has materially affected, or is reasonably likely to materially affect, ML & Co.'s internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

No information required to be disclosed under this item.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information relating to Directors of the Registrant is set forth under the caption *Election of Directors* on pages 6 to 9 of ML & Co.'s Proxy Statement dated March 15, 2005 for its 2005 Annual Meeting of Shareholders to be held on April 22, 2005 ("2005 Proxy Statement") and is incorporated herein by reference. Information relating to ML & Co.'s executive officers is set forth at the end of Part I of this Report on pages 26 and 27 under the caption *Executive Officers of Merrill Lynch & Co., Inc.* Also incorporated herein by reference is the information under the caption *Section 16(a) Beneficial Ownership Reporting Compliance* on page 49 of the 2005 Proxy Statement.

Information relating to the ML & Co. Board of Directors' determination regarding the service of an audit committee financial expert on the Board's Audit Committee and the names and independence of such experts are set forth under the captions *Board Independence and Expertise* on pages 19 and 20 of the 2005 Proxy Statement and *The Audit Committee* on pages 24 to 26 of the 2005 Proxy Statement and is incorporated herein by reference. Information relating to the identities of the members of the Board's Audit Committee is set forth under the caption *Board Committee Membership and Meetings* on pages 23 and 24 of the 2005 Proxy Statement and is also incorporated herein by reference. The information regarding the procedures by which shareholders may recommend nominees to the ML & Co. Board of Directors is incorporated herein by reference from the information appearing under the captions *Information on the Director Nomination Process* and *Information Regarding Shareholder Proposals for the 2006 Annual Meeting* on pages 22 and 23, and 49 respectively, of the 2005 Proxy Statement.

The Company's *Guidelines for Business Conduct: Merrill Lynch's Code of Ethics for Directors, Officers and Employees* ("Guidelines") sets forth the fundamental principles and key policies and procedures that govern the conduct of all of the Company's directors, officers and employees, including the Company's Chief Executive Officer, Chief Financial Officer, Controller and Principal Accounting Officer. Financial Professionals are required to conduct their personal and professional affairs in a manner that is consistent with the ethical and professional standards set forth in the Guidelines, as well as the supplemental *Code of Ethics for Financial Professionals* ("Financial Code"). In 2002, ML & Co.'s Board of Directors adopted an amended version of the Guidelines that was designated as the Company's code of ethics for directors, officers and employees in performing their duties. A copy of the Guidelines is referenced in Exhibit 14.1 to this Report. In 2003 the Board of Directors adopted the Financial Code that applies to all Merrill Lynch professionals who participate in the Company's public disclosure process. The Financial Code is referenced as Exhibit 14.2 to this Report. Both the Guidelines and the Financial Code may also be found on the ML Corporate Governance Website at www.ml.com and copies of these documents may be obtained, free of charge, upon written request to Judith A. Witterschein, Corporate Secretary, Merrill Lynch & Co., Inc., 222 Broadway, 17th Floor, New York, NY 10038.

We will post any amendments to the Guidelines and/or the Financial Code and any waivers to either that are required to be disclosed by the rules of the SEC or NYSE on our website.

ITEM 11. EXECUTIVE COMPENSATION

Information relating to ML & Co. director and executive officer compensation set forth on pages 28 to 30, 37 to 46 and 48 of the 2005 Proxy Statement is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information concerning security ownership of certain beneficial owners of ML & Co. Common Stock on page 36 of the 2005 Proxy Statement and the information concerning the security ownership of ML & Co. directors and executive officers on page 35 of the 2005 Proxy Statement is incorporated herein by reference. The information concerning compensation plans, under which ML & Co. equity securities are authorized for issuance, on pages 13 and 14 of the 2005 Proxy Statement is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information regarding certain relationships and related transactions set forth under the caption *Certain Transactions* on page 47 of the 2005 Proxy Statement is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information concerning ML & Co.'s Independent Registered Public Accounting Firm's Audit Fees, Audit-Related Fees, Tax Fees and All Other Fees on page 34 of the 2005 Proxy Statement and the disclosure of ML & Co.'s Audit Committee's pre-approval policies and procedures for services performed by ML & Co.'s Independent Registered Public Accounting Firm on page 33 of the 2005 Proxy Statement are incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

Documents filed as part of this Report:

1. Consolidated Financial Statements

   The consolidated financial statements required to be filed hereunder are listed on page F-1 hereof by reference to the corresponding page number in the 2004 Annual Report.
2. Financial Statement Schedule

   The financial statement schedule required to be filed is listed on page F-1 and the schedule included herewith appears on pages F-2 through F-10 hereof.
3. Exhibits

   Certain exhibits were previously filed by Merrill Lynch as exhibits to other reports or registration statements and are incorporated herein by reference as indicated parenthetically below. ML & Co.'s Exchange Act file number is 001-07182. For convenience, Quarterly Reports on Form 10-Q, Annual Reports on Form 10-K, Current Reports on Form 8-K and Registration Statements on Form S-3 are designated herein as "10-Q," "10-K," "8-K" and "S-3," respectively.

Articles of Incorporation and By-Laws

3.1 Restated Certificate of Incorporation of ML & Co., effective as of May 3, 2001 (Exhibit 3.1 to 8-K dated March 9, 2005).

3.2 Certificate of Designations for ML & Co. Floating Rate Non-Cumulative Preferred Stock, Series 1, par value $1.00 per share, effective as of October 25, 2004 (Exhibit 3.2 and 4.1 to 8-K dated March 9, 2005).

3.3 Certificate of Designations for ML & Co. Floating Rate Non-Cumulative Preferred Stock, Series 2, par value $1.00 per share, effective as of March 9, 2005 (Exhibit 3.3 and 4.2 to 8-K dated March 9, 2005).

3.4 By-Laws of ML & Co., effective as of April 28, 2003 (Exhibit 3 to 10-Q for the quarter ended March 28, 2003).

Instruments Defining the Rights of Security Holders, Including Indentures

ML & Co. hereby undertakes to furnish to the SEC, upon request, copies of any agreements not filed defining the rights of holders of long-term debt securities of ML & Co., none of which authorize an amount of securities that exceed 10% of the total assets of ML & Co.

4.1 Senior Indenture, dated as of April 1, 1983, as amended and restated as of April 1, 1987, between ML & Co. and JPMorgan Chase Bank, N.A. [3] ("1983 Senior Indenture") and the Supplemental Indenture thereto dated as of March 15, 1990 (filed as Exhibit 4(i) to 10-K for fiscal year ended December 29, 1999 ("1999 10-K")).

4.2 Sixth Supplemental Indenture to the 1983 Senior Indenture, dated as of October 25, 1993, between ML & Co. and JPMorgan Chase Bank, N.A. (filed as Exhibit 4(ii) to 1999 10-K).

4.3 Twelfth Supplemental Indenture to the 1983 Senior Indenture, dated as of September 1, 1998, between ML & Co. and JPMorgan Chase Bank, N.A. (filed as Exhibit 4(a) to 8-K dated October 21, 1998).

4.4 Thirteenth Supplemental Indenture to the 1983 Senior Indenture, dated as of July 31, 2002, between ML & Co. and JPMorgan Chase Bank, N.A. (filed as Exhibit 4(b)(vii) to S-3 (file no. 333-109802))

4.5 Fourteenth Supplemental Indenture to the 1983 Senior Indenture, dated as of September 23, 2002, between ML & Co. and JPMorgan Chase Bank, N.A. (filed as Exhibit 4(b)(viii) to S-3 (file no. 333-109802)).

4.6 Fifteenth Supplemental Indenture to the 1983 Senior Indenture, dated as of October 14, 2003, between ML & Co. and JPMorgan Chase Bank, N.A. (filed as Exhibit 4(b)(ix) to S-3 (file no. 333-109802)).

4.7 Sixteenth Supplemental Indenture to the 1983 Senior Indenture, dated as of June 4, 2004, between ML & Co. and JPMorgan Chase Bank, N.A. (filed as Exhibit 4(b)(xii) to S-3 (file no. 333-122639)).

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[3] As used in Item 15 of this Report, "JPMorgan Chase Bank, N.A." shall mean the entity formerly known as JPMorgan Chase Bank, The Chase Manhattan Bank and Chemical Bank (successor by merger to Manufacturers Hanover Trust Company).

4.8	Seventeenth Supplemental Indenture to the 1983 Senior Indenture, dated as of October 14, 2004, between ML & Co. and JPMorgan Chase Bank, N.A. (filed as Exhibit 4(b)(xiii) to S-3 (file no. 333-122639)).
4.9	Eighteenth Supplemental Indenture to the 1983 Senior Indenture, dated as of October 21, 2004, between ML & Co. and JPMorgan Chase Bank, N.A. (filed as Exhibit 4(b)(xiv) to S-3 (file no. 333-122639)).
4.10	Senior Indenture, dated as of October 1, 1993 between ML & Co. and JPMorgan Chase Bank, N.A. ("1993 Senior Indenture") (filed as Exhibit (4)(iv) to 10-K for fiscal year ended December 25, 1998 ("1998 10-K")).
4.11	First Supplemental Indenture to the 1993 Senior Indenture, dated as of June 1, 1998, between ML & Co. and JPMorgan Chase Bank, N.A. (filed as Exhibit 4(a) to 8-K dated July 2, 1998).
4.12	Indenture, dated as of May 23, 2001, between ML & Co. and JPMorgan Chase Bank, N.A. relating to ML & Co.'s Liquid Yield Optiontm Notes due 2031 (Zero Coupon — Senior) (filed as Exhibit 4.4 to 10-Q for the quarter ended September 24, 2004 ("Third Quarter 2004 10-Q").
4.13	First Supplemental Indenture, dated as of November 1, 2004, between ML & Co. and JPMorgan Chase Bank, N.A. relating to ML & Co.'s Liquid Yield Optiontm Notes due 2031 (Zero Coupon — Senior) (filed as Exhibit 4.5 to Third Quarter 2004 10-Q).
4.14	Second Supplemental Indenture, dated as of November 9, 2004, between ML & Co. and JPMorgan Chase Bank, N.A. relating to ML & Co.'s Liquid Yield Optiontm Notes due 2031 (Zero Coupon — Senior) (filed as Exhibit 4 to 8-K dated November 10, 2004).
4.15	Indenture, dated as of March 13, 2002, between ML & Co. and JPMorgan Chase Bank, N.A. relating to ML & Co.'s Liquid Yield Optiontm Notes due 2032 (Zero Coupon — Floating Rate — Senior) (filed as Exhibit 4.6 to Third Quarter 2004 10-Q).
4.16	First Supplemental Indenture, dated as of November 1, 2004, between ML & Co. and JPMorgan Chase Bank, N.A. relating to ML & Co.'s Liquid Yield Option tm Notes due 2032 (Zero Coupon — Floating Rate — Senior) (filed as Exhibit 4.7 to Third Quarter 2004 10-Q).
4.17	Indenture, dated as of December 14, 2004, between ML & Co. and JPMorgan Chase Bank, N.A., relating to ML & Co.'s Exchange Liquid Yield Optiontm Notes due 2032 (Zero Coupon — Floating Rate — Senior) (filed as Exhibit 4(a)(vii) to S-3 (file no. 333-122639)).
4.18	Deposit Agreement, dated as of November 1, 2004, between ML & Co., JPMorgan Chase Bank, N.A., as Depositary, and the holders from time to time of the Floating Rate Non-Cumulative Preferred Stock, Series 1 depositary shares of ML & Co. (filed as Exhibit 2 to Form 8-A dated October 26, 2004).
4.19	Deposit Agreement, dated as of March 14, 2005, between ML & Co., JPMorgan Chase Bank, N.A., as Depositary, and the holders from time to time of the Floating Rate Non-Cumulative Preferred Stock, Series 2 depositary shares of ML & Co. (filed as Exhibit 2 to Form 8-A dated March 11, 2005).
4.20	Form of Amended and Restated Rights Agreement dated as of December 2, 1997, between ML & Co. and Wells Fargo Bank, N.A. (successor to Mellon Investor Services, L.L.C.) (filed as Exhibit 4 to 8-K dated December 2, 1997).

Material Contracts

10.1†	ML & Co. Equity Capital Accumulation Plan, as amended through July 26, 1999 (Exhibit 10(iii) to 10-Q for the quarter ended June 25, 1999).
10.2†	Written description of retirement programs for non-employee directors (pages 29 and 30 of ML & Co.'s Proxy Statement for the 2005 Annual Meeting of Shareholders contained in ML & Co.'s Schedule 14A filed on March 15, 2005).
10.3*†	Form of Severance Agreement between ML & Co. and certain of its directors and executive officers.
10.4	Form of Indemnification Agreement entered into with all current directors of ML & Co. and to be entered into with all future directors of ML & Co. (Exhibit 10(viii) to 1998 10-K).
10.5†	Written description of ML & Co.'s incentive compensation programs (Exhibit 10(ix) to 1998 10-K).
10.6†	Written description of ML & Co.'s compensation policy for directors and executive officers (pages 28 to 30 and pages 37 to 46 of ML & Co.'s Proxy Statement for the 2005 Annual Meeting of Shareholders contained in ML & Co.'s Schedule 14A filed on March 15, 2005).
10.7	Form of Amended and Restated Agreement of Limited Partnership of Merrill Lynch KECALP L.P. 1994 (Exhibit (a)(ii) to Registration Statement on Form N-2 (file No. 33-51825)).

10.8	Form of Amended and Restated Agreement of Limited Partnership of Merrill Lynch KECALP L.P. 1997 (Exhibit (a)(ii) to Registration Statement on Form N-2 (file No. 333-15035)).
10.9	Form of Amended and Restated Agreement of Limited Partnership of Merrill Lynch KECALP L.P. 1999 (Exhibit (a)(ii) to Registration Statement on Form N-2 (file No. 333-59143)).
10.10†	ML & Co. Deferred Restricted Unit Plan for Executive Officers (Exhibit 10(xxiii) to 10-K for fiscal year ended December 27, 1996 ("1996 10-K")).
10.11†	Amendment dated February 12, 1998 to the ML & Co. Deferred Restricted Unit Plan for Executive Officers (Exhibit 10.32 to 10-K for the fiscal year ended December 26, 1997 ("1997 10-K")).
10.12†	ML & Co. Fee Deferral Plan for Non-Employee Directors, as amended through April 15, 1997 (Exhibit 10 to 10-Q for the quarter ended March 28, 1997).
10.13†	Form of ML & Co. Amended and Restated 1994 Deferred Compensation Agreement for a Select Group of Eligible Employees, as amended through November 10, 1994 (Exhibit 10(ii) to 1999 10-K).
10.14†	ML & Co. 1995 Deferred Compensation Plan for a Select Group of Eligible Employees (Exhibit 10(xix) to 1999 10-K).
10.15†	ML & Co. 1996 Deferred Compensation Plan for a Select Group of Eligible Employees (Exhibit 10(i) to 10-Q for the quarter ended September 29, 1995).
10.16†	ML & Co. 1997 Deferred Compensation Plan for a Select Group of Eligible Employees (Exhibit 10(xxvii) to 1996 10-K).
10.17†	ML & Co. 1998 Deferred Compensation Plan for a Select Group of Eligible Employees (Exhibit 10(i) to 10-Q for the quarter ended September 26, 1997).
10.18†	ML & Co. 1999 Deferred Compensation Plan for a Select Group of Eligible Employees (Exhibit 10 to 10-Q for the quarter ended September 25, 1998).
10.19†	ML & Co. 2000 Deferred Compensation Plan for a Select Group of Eligible Employees (Exhibit 10(xxiv) to 1999 10-K).
10.20†	ML & Co. 2001 Deferred Compensation Plan for a Select Group of Eligible Employees (Exhibit 10(xxiii) to 10-K for the fiscal year ended December 28, 2001 ("2001 10-K").
10.21†	ML & Co. 2002 Deferred Compensation Plan for a Select Group of Eligible Employees (Exhibit 10(xxv) to 2001 10-K).
10.22†	ML & Co. 2003 Deferred Compensation Plan for a Select Group of Eligible Employees (Exhibit 10.26 to 10-K for the fiscal year ended December 27, 2002 ("2002 10-K")).
10.23†	ML & Co. 2004 Deferred Compensation Plan for a Select Group of Eligible Employees (Exhibit 10 to 10-Q for the quarter ended September 26, 2003).
10.24†	ML & Co. 2005 Deferred Compensation Plan for a Select Group of Eligible Employees (Exhibit 10 to 8-K dated October 8, 2004).
10.25†	ML & Co. 1997 KECALP Deferred Compensation Plan for a Select Group of Eligible Employees (Exhibit 10(i) to 10-Q for the quarter ended June 27, 1997).
10.26†	Amendment dated September 18, 1996 to Deferred Compensation Plans (amending the Amended and Restated 1994 Deferred Compensation Agreement for a Select Group of Eligible Employees, the ML & Co. 1995 Deferred Compensation Plan for a Select Group of Eligible Employees and the ML & Co. 1996 Deferred Compensation Plan for a Select Group of Eligible Employees) (Exhibit 10(xxxii) to 1996 10-K).
10.27†	Amendment dated February 12, 1998 to the ML & Co. Deferred Compensation Plans for a Select Group of Eligible Employees for the years 1994, 1995, 1996 and 1997 (Exhibit 10.31 to 1997 10-K).
10.28†	Merrill Lynch Financial Advisor Capital Accumulation Award Plan (Exhibit 10.30 to 2002 10-K).
10.29†	ML & Co. Deferred Stock Unit and Stock Option Plan for Non-Employee Directors (Exhibit 10.32 to 10-K for the fiscal year ended December 26, 2003).
10.30†	ML & Co. Long-Term Incentive Compensation Plan for Managers and Producers, as amended April 27, 2001 (Exhibit 10(xxx) to 2001 10-K).
10.31†	ML & Co. Long-Term Incentive Compensation Plan for executive officers, as amended April 27, 2001 (Exhibit 10(i) to 10-Q for the quarter ended June 29, 2001).
10.32†	Form of Executive Annuity Agreement by and between ML & Co. and certain of its high level senior executive officers (Exhibit 10(xxxii) to 2001 10-K).

10.33†	ML & Co. Employee Stock Compensation Plan (Exhibit C to ML & Co.'s Proxy Statement for the 2003 Annual Meeting of Shareholders contained in ML & Co.'s Schedule 14A filed on March 14, 2003).
10.34†	Form of grant document for executive officers under the ML & Co. Long-Term Incentive Compensation Plan (Exhibit 10.1 to 10-Q for the quarter ended September 24, 2004).
10.35†	Form of Restricted Covenant Agreement between ML & Co. and its executive officers (Exhibit 10 to 8-K dated September 17, 2004).
11	Statement re: computation of earnings per common share (the calculation of per share earnings is in Part II, Item 8, Note 10 to the Consolidated Financial Statements (Stockholders' Equity and Earnings Per Share) and is omitted in accordance with Section (b)(11) of Item 601 of Regulation S-K).
12*	Statement re: computation of ratios.
13*	Excerpt of 2004 Annual Report to Shareholders.
14.1	ML & Co. Guidelines for Business Conduct: Merrill Lynch's Code of Ethics for Directors, Officers and Employees (Exhibit 99.11 to 2002 10-K).
14.2	ML & Co. Code of Ethics for Financial Professionals (Exhibit 99.1 to 10-Q for the quarter ended September 26, 2003).
21*	Subsidiaries of ML & Co.
23*	Consent of Independent Registered Public Accounting Firm, Deloitte & Touche LLP.
31.1*	Rule 13a-14(a) Certification of the Chief Executive Officer.
31.2*	Rule 13a-14(a) Certification of the Chief Financial Officer.
32.1*	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Additional Exhibits

99.1*	Report of Independent Registered Public Accounting Firm, Deloitte & Touche LLP, with respect to the information set forth in Exhibit 12 under the captions "Ratio of Earnings to Fixed Charges" and "Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends".
99.2*	Report of Independent Registered Public Accounting Firm, Deloitte & Touche LLP, with respect to information set forth in the "Selected Financial Data" table, which is incorporated by reference in Part II, Item 6, under the captions "Results of Operations," "Financial Position" and "Common Share Data".
99.3*	Charter of the Audit Committee of the ML & Co. Board of Directors.
99.4	Charter of the Finance Committee of the ML & Co. Board of Directors (Exhibit 99.6 to 2002 10-K).
99.5	Charter of the Management Development and Compensation Committee of the ML & Co. Board of Directors (Exhibit 99.7 to 2002 10-K).
99.6	Charter of the Nominating and Corporate Governance Committee of the ML & Co. Board of Directors (Exhibit 99.8 to 2002 10-K).
99.7	Charter of the Public Policy and Responsibility Committee of the ML & Co. Board of Directors (Exhibit 99.1 to 10-Q for the quarter ended June 27, 2003).

* Filed herewith

† Management contract or compensatory plan or arrangement

MERRILL LYNCH & CO., INC.

INDEX TO FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULE ITEMS 15(1) AND 15(2)

Page Reference

Schedules not listed are omitted because of the absence of the conditions under which they are required or because the information is included in the Consolidated Financial Statements and Notes thereto in the 2004 Annual Report to Shareholders, which are incorporated herein by reference.

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Schedule I

CONDENSED FINANCIAL INFORMATION OF REGISTRANT
MERRILL LYNCH & CO., INC.
(Parent Company Only)

CONDENSED STATEMENTS OF EARNINGS AND COMPREHENSIVE INCOME
(dollars in millions)

	Year Ended Last Friday in December		
	2004 (53 weeks)	2003 (52 weeks)	2002 (52 weeks)
REVENUES			
Interest (principally from affiliates)	$ 2,174	$ 1,551	$ 1,865
Management service fees (from affiliates)	323	448	444
Other	50	2	15
Total Revenues	2,547	2,001	2,324
Interest Expense	2,203	1,617	1,838
Net Revenues	344	384	486
NON-INTEREST EXPENSES			
Compensation and benefits	290	337	480
Professional fees	150	44	122
Restructuring and other charges	—	13	57
Net expenses and (recoveries) related to September 11	—	18	(55)
Other	193	122	184
Total Non-Interest Expenses	633	534	788
EQUITY IN EARNINGS OF AFFILIATES, NET OF TAX	4,585	3,904	1,879
EARNINGS BEFORE INCOME TAXES	4,296	3,754	1,577
Income Tax Benefit	140	82	131
NET EARNINGS	$ 4,436	$ 3,836	$ 1,708
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	70	19	(202)
COMPREHENSIVE INCOME	$ 4,506	$ 3,855	$ 1,506
NET EARNINGS APPLICABLE TO COMMON STOCKHOLDERS	$ 4,395	$ 3,797	$ 1,670

See Notes to Condensed Financial Statements

Schedule I

CONDENSED FINANCIAL INFORMATION OF REGISTRANT
MERRILL LYNCH & CO., INC.
(Parent Company Only)

CONDENSED BALANCE SHEETS
(dollars in millions, except per share amounts)

	December 31, 2004	December 26, 2003
ASSETS		
Cash and cash equivalents	$ 5,389	$ 119
Cash pledged as collateral	285	296
Receivables under resale agreements with affiliates	3,348	—
Investment securities (includes securities pledged as collateral of $10,954 in 2004 and $7,350 in 2003)	20,921	16,777
Advances to affiliates		
Senior advances	78,710	68,050
Subordinated loans and preferred securities	17,482	12,708
	96,192	80,758
Investments in affiliates, at equity	30,921	26,258
Equipment and facilities (net of accumulated depreciation and amortization of $236 in 2004 and $222 in 2003)	65	66
Other receivables and assets	2,048	5,252
TOTAL ASSETS	$ 159,169	$ 129,526
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Payables under repurchase agreements with affiliates	$ 10,504	$ 6,558
Commercial paper and other short-term borrowings	2,061	3,400
Payables to affiliates	7,795	5,018
Other liabilities and accrued interest	3,127	5,127
Long-term borrowings	104,312	80,539
Total Liabilities	127,799	100,642
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Preferred Stockholders' Equity: (2004 — 21,000 shares issued and outstanding with liquidation preference of $30,000 per share; 2003 — 42,500 shares issued and outstanding with liquidation preference of $10,000 per share)	630	425
Common Stockholders' Equity		
Shares exchangeable into common stock	41	43
Common stock: par value $1.33 1/3 per share; authorized: 3,000,000,000 shares; (issued: 2004 — 1,098,991,806 shares and 2003 — 1,063,205,274 shares)	1,465	1,417
Paid-in capital	12,332	10,676
Accumulated other comprehensive loss (net of tax)	(481)	(551)
Retained earnings	22,485	18,692
	35,842	30,277
Less: Treasury stock, at cost (2004 — 170,955,057 shares; 2003 — 117,294,392 shares)	4,230	1,195
Unamortized employee stock grants	872	623
Total Common Stockholders' Equity	30,740	28,459
Total Stockholders' Equity	31,370	28,884
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 159,169	$ 129,526

See Notes to Condensed Financial Statements

Schedule I

CONDENSED FINANCIAL INFORMATION OF REGISTRANT
MERRILL LYNCH & CO., INC.
(Parent Company Only)

CONDENSED STATEMENTS OF CASH FLOWS
(dollars in millions)

	Year Ended Last Friday in December		
	2004	2003	2002
Cash Flows from Operating Activities:			
Net Earnings	$ 4,436	$ 3,836	$ 1,708
Noncash items included in earnings:			
Equity in earnings of affiliates, net of tax	(4,585)	(3,904)	(1,879)
Depreciation and amortization	13	23	35
Stock compensation expense	41	72	116
Restructuring charge	—	13	57
Other	340	409	(189)
Changes in operating assets and liabilities:			
Cash pledged as collateral	11	79	(375)
Receivables under resale agreements	(3,348)	—	—
Payables under repurchase agreements	3,946	6,558	—
Other, net	3,303	3,873	1,352
Cash Provided by Operating Activities	4,157	10,959	825
Cash Flows from Investing Activities:			
Proceeds from (payments for):			
Advances to affiliates, net of payments	(12,678)	(5,742)	5,943
Maturities of available-for-sale securities	7,272	4,695	8,856
Sales of available-for-sale securities	2,290	7,489	111
Purchases of available-for-sale securities	(12,587)	(20,346)	(13,913)
Other investments	(1,331)	(171)	(251)
Investments in affiliates, net of dispositions	(521)	(800)	(1,448)
Dividends and partnerships distributions from affiliates	874	863	1,014
Equipment and facilities	(12)	20	(20)
Cash (Used for) Provided by Investing Activities	(16,693)	(13,992)	292
Cash Flows from Financing Activities:			
Proceeds from (payments for):			
Commercial paper and other short-term borrowings	(1,339)	29	1,462
Issuance and resale of long-term borrowings	43,246	27,631	23,754
Settlement and repurchase of long-term borrowings	(21,325)	(25,505)	(25,866)
Issuance of common stock	589	624	295
Issuance of preferred stock (net of redemptions)	205	—	—
Treasury stock repurchases	(2,968)	—	—
Other common stock transactions	41	69	(54)
Dividends	(643)	(635)	(591)
Cash Provided by (Used for) Financing Activities	17,806	2,213	(1,000)
Increase (Decrease) in Cash and Cash Equivalents	5,270	(820)	117
Cash and Cash Equivalents, beginning of year	119	939	822
Cash and Cash Equivalents, end of year	$ 5,389	$ 119	$ 939
Supplemental Disclosure			
Cash paid for:			
Income taxes	$ 375	$ (62)	$ 487
Interest	1,985	1,641	1,858

See Notes to Condensed Financial Statements

NOTES TO CONDENSED FINANCIAL STATEMENTS

(Parent Company Only)

NOTE 1. BASIS OF PRESENTATION

The condensed unconsolidated financial statements of Merrill Lynch & Co., Inc. ("ML & Co." or the "Parent Company") should be read in conjunction with the Consolidated Financial Statements of Merrill Lynch & Co., Inc. and subsidiaries (collectively, "Merrill Lynch") and the Notes thereto in the Merrill Lynch 2004 Annual Report to Shareholders (the "Annual Report") included as an exhibit to this Form 10-K. Certain reclassification and format changes have been made to prior year amounts to conform to the current year presentation.

Investments in affiliates are accounted for in accordance with the equity method.

For information on the following, refer to the indicated Notes to the Consolidated Financial Statements within the Annual Report.

- Summary of Significant Accounting Policies (Note 1)
- Commercial Paper and Short- and Long-Term Borrowings (Note 8)
- Stockholders' Equity and Earnings Per Share (Note 10)
- Commitments, Contingencies and Guarantees (Note 11)
- Employee Benefit Plans (Note 12)
- Employee Incentive Plans (Note 13)
- Income Taxes (Note 14)

The Parent Company hedges certain risks arising from long-term borrowing payment obligations, investment securities and investments in and loans to foreign subsidiaries. See Note 8 and the "Derivatives" section of Note 1 to the Consolidated Financial Statements in the Annual Report, respectively, for additional information on these hedges.

NOTE 2. SECURITIES FINANCING TRANSACTIONS

ML & Co. enters into secured borrowing and lending transactions as a part of its normal operating activities. Under these transactions, ML & Co. will repo securities it owns, or ML & Co will transact in resale agreements.

NOTE 3. INVESTMENT SECURITIES

Investment securities include liquid debt securities held for liquidity and collateral purposes. Investment securities reported on the Condensed Balance Sheets at December 31, 2004 and December 26, 2003 are as follows:

(dollars in millions)

	2004	2003
Investment securities		
Available-for-sale	$18,597	$15,746
Trading	1,500	150
Non-qualifying[1]		
Investments in TOPrS^{sm} partnerships	548	548
Deferred compensation hedges[2]	9	14
Other	267	319
Total	$20,921	$16,777

1 Non-qualifying for SFAS No. 115 (Accounting for Certain Investments in Debt and Equity Securities) purposes.

2 Represents investments economically hedging deferred compensation liabilities.

Investment securities are classified as available-for-sale, held-to-maturity, or trading as described in Note 1 to the Consolidated Financial Statements within the Annual Report.

Information regarding investment securities subject to SFAS No. 115 follows:

(dollars in millions)

	December 31, 2004				December 26, 2003			
	Cost/ Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Cost/ Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-Sale								
Mortgage- and asset-backed securities	$ 16,834	$ 47	$ (76)	$ 16,805	$ 12,348	$ 111	$ (32)	$ 12,427
U.S. Government and agencies	1,597	—	(4)	1,593	3,296	85	(62)	3,319
Other Debt Securities	174	25	—	199	—	—	—	—
Total	$ 18,605	$ 72	$ (80)	$ 18,597	$ 15,644	$ 196	$ (94)	$ 15,746

The amortized cost and estimated fair value of debt securities at December 31, 2004 by contractual maturity, for available-for-sale investments follow:

(dollars in millions)

	Available-for-Sale	
	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 597	$ 598
Due after one year through five years	109	108
Due after five years through ten years	950	946
Due after ten years	115	140
	1,771	1,792
Mortgage- and asset-backed securities	16,834	16,805
Total[1]	$ 18,605	$ 18,597

1 Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without prepayment penalties.

The proceeds and gross realized gains (losses) from the sale of available-for-sale investments are as follows:

(dollars in millions)

	2004	2003	2002
Proceeds	$2,290	$7,489	$ 111
Gross realized gains	17	53	16
Gross realized losses	(1)	(60)	(9)

The following table presents fair value and unrealized losses, after hedges, for available-for-sale securities, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position at December 31, 2004.

(dollars in millions)

	Less than 1 Year		Greater than 1 Year		Total	
Asset Category	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mortgage and asset-backed securities	$ 8,979	$ (47)	$ 4,597	$ (29)	$13,576	$ (76)
U.S. Government and agencies	647	(1)	946	(3)	1,593	(4)
Other Debt Securities	59	—	114	(2)	173	(2)
Total temporarily impaired securities	$ 9,685	$ (48)	$ 5,657	$ (34)	$15,342	$ (82)

(See Note 4 to the Consolidated Financial Statements in the Annual Report for further information.)

NOTE 4. ADVANCES TO AFFILIATES

The Parent Company provides funding to subsidiaries in the form of senior advances, subordinated loans, preferred securities, and equity.

Senior advances are provided to regulated and unregulated subsidiaries and have an average maturity of less than one year.

Subordinated loans are provided to regulated subsidiaries and qualify as regulatory capital. Subordinated loans are supported by Parent Company long-term capital. As of December 31, 2004, the average maturity of subordinated loans was approximately 1 year, with maturities on individual loans ranging from 1 to 9 years. (See Note 15 to the Consolidated Financial Statements in the Annual Report for further information.)

Preferred securities represent $4.3 billion in Redeemable Cumulative Preferred Stock issued to ML & Co. by unregulated consolidated Merrill Lynch subsidiaries. About $3.0 billion in preferred stock is redeemable anytime on or after December 31, 2006. The remaining $1.3 billion in preferred stock is redeemable at any time at the option of either ML & Co. or the issuing subsidiary.

NOTE 5. LONG-TERM BORROWINGS

Long-term borrowings, including adjustments related to fair value hedges and various equity-linked or other indexed instruments, and long-term debt issued to TOPrSsm Partnerships at December 31, 2004, mature as follows:

(dollars in millions)		
2005	$ 19,806	19%
2006	14,395	14
2007	13,021	12
2008	7,957	8
2009	17,911	17
2010 and thereafter	31,222	30
Total	$104,312	100%

(See Note 8 to the Consolidated Financial Statements in the Annual Report for further information.)

Borrowing Facilities

ML & Co. maintains a $5 billion liquidity facility in the form of a committed repurchase agreement with Merrill Lynch Bank USA. Assets eligible for repurchase under the terms of the repurchase agreement include securities that are permissible under applicable bank regulations. The facility expires in December 2005 and is expected to be renewed.

NOTE 6. COMMITMENTS, CONTINGENCIES AND GUARANTEES

Merrill Lynch has been named as a defendant in various legal actions, including arbitrations, class actions, and other litigation arising from its activities as a global diversified financial services institution.

Some of the legal actions include claims for substantial compensatory and/or punitive damages or claims for indeterminate amounts of damages. In some cases, the issuers who would otherwise be the primary defendants in such cases are bankrupt or otherwise in financial distress. Merrill Lynch is also involved in investigations and/or proceedings by governmental and self-regulatory agencies. The number of these investigations has also increased in recent years with regard to many firms, including Merrill Lynch.

Given the number of these matters, some are likely to result in adverse judgments, settlements, penalties, injunctions, fines, or other relief. Merrill Lynch believes it has strong defenses to, and where appropriate, will vigorously contest many of these matters. In accordance with SFAS No. 5, *Accounting for Contingencies,* when resolution of cases is both probable and estimable, Merrill Lynch will accrue a liability. In many lawsuits and arbitrations, including class action lawsuits, it is not possible to determine whether a liability has been incurred or to estimate the ultimate or minimum amount of that liability until the case is close to resolution, in which case no accrual is made until that time. In view of the inherent difficulty of predicting the outcome of such matters, particularly in cases in which claimants seek substantial or indeterminate damages, Merrill Lynch cannot predict what the eventual loss or range of loss related to such matters will be. Merrill Lynch continues to assess these matters and believes, based on information available to it, that the resolution of these matters will not have a material adverse effect on the financial condition of Merrill Lynch as set forth in the Consolidated Financial Statements in the Annual Report and the Condensed Financial Statements, but may be material to Merrill Lynch's operating results or cash flows for any particular period and may impact ML & Co.'s credit ratings.

Merrill Lynch is under examination by the Internal Revenue Service ("IRS") and other tax authorities in major countries such as Japan and the United Kingdom, and states in which Merrill Lynch has significant business operations, such as New York.

Merrill Lynch regularly assesses the likelihood of additional assessments in each of the tax jurisdictions resulting from these examinations. Tax reserves have been established, which Merrill Lynch believes to be adequate in relation to the potential for additional assessments. However, there is a reasonable possibility that additional amounts may be incurred. Management believes that the estimated range of the additional possible amount is between $0 and $150 million. This range and the level of reserves are adjusted when there is more information available, or when an event occurs requiring a change to the reserves. The reassessment of tax reserves could have a material impact on Merrill Lynch's effective tax rate.

ML & Co. guarantees certain senior debt instruments issued by subsidiaries, which totaled $7.0 billion and $5.4 billion in 2004 and 2003, respectively.

In the normal course of business, ML & Co. guarantees certain of its subsidiaries' obligations under derivative contracts. The total liability balance for derivatives on these subsidiaries, after the effect of netting pursuant to enforceable netting agreements, was approximately $48.6 billion and $40.9 billion at December 31, 2004 and December 26, 2003, respectively. This represents the current fair value of the subsidiaries' obligations. The maximum payout is not quantifiable because, for example, changes in the value of the underlying of the derivative contract could be unlimited. Under FASB Interpretation No. 45 (*Guarantor's Accounting and Disclosure Requirements for Guarantees)*, ML & Co. is not required to record a liability for its exposure to guarantees of its subsidiaries' obligations. Merrill Lynch records all derivative transactions at fair value on its Consolidated Balance Sheets. (See the "Derivatives" section of Note 1 to the Consolidated Financial Statements for discussion of risk management of derivatives.)

In addition to the derivative contracts described above, ML & Co. guarantees certain liquidity facilities. ML & Co. also provides guarantees associated with the Hopewell campus and aircraft leases. The maximum exposure to ML & Co. as a result of this guarantee is approximately $322 million as of December 31, 2004. The carrying value of the liability on the Condensed Financial Statements is $23 million and $34 million at December 31, 2004 and December 26, 2003, respectively. (See Note 11 to the Consolidated Financial Statements in the Annual Report for further information.)

ML & Co. also guarantees obligations of the trusts that issued Trust Originated Preferred Securities[sm] ("TOPrS[sm]") (see Note 8 to the Consolidated Financial Statements in the Annual Report for further information).

NOTE 7. OTHER EVENTS

September 11-Related Expenses

On September 11, 2001 terrorists attacked the World Trade Center complex, which subsequently collapsed and damaged surrounding buildings, some of which were occupied by Merrill Lynch. These events caused the temporary relocation of approximately 9,000 employees from Merrill Lynch's global headquarters in the North Tower of the World Financial Center, the South Tower of the World Financial Center and from offices at 222 Broadway to back-up facilities.

ML & Co. is insured for loss caused by physical damage to property. This coverage includes repair or replacement of property and lost profits due to business interruption, including costs related to lack of access to facilities. Expenses related to September 11 were $18 million and $95 million in 2003 and 2002, respectively. In 2002, ML & Co. recorded and received September 11-related insurance recoveries of $150 million. During 2003, ML & Co. concluded its insurance recovery efforts related to the events of September 11. In aggregate, ML & Co. received a total of $255 million of insurance recoveries.

For information on the consolidated September 11-related expenses, refer to Note 16 to the Consolidated Financial Statements within the Annual Report.

Restructuring Charge

During the fourth quarter of 2001, Merrill Lynch's management formally committed to a restructuring plan designed to position Merrill Lynch for improved profitability and growth, which included the resizing of selected businesses and other structural changes. As a result, in 2001 ML & Co. incurred a fourth quarter pre-tax restructuring charge to earnings of $239 million. In

2002 and 2003, ML & Co. incurred additional pre-tax restructuring charges of $57 million and $13 million, respectively, related to changes in the 2001 restructuring.

Structural changes include targeted workforce reductions of 225 through a combination of involuntary and voluntary separations, across various business groups. At December 28, 2001, the majority of employee separations were completed or announced and all had been identified. Substantially all employee separations were completed in 2002. The remaining employee separations were completed in 2003.

Any unused portion of the original restructuring reserve will be reversed. Utilization of the restructuring reserve and a rollforward of the staff reductions at December 31, 2004 is as follows:

(dollars in millions)

	Balance Dec 27, 2002	Utilized in 2003	Net Change in Estimate	Balance Dec 26, 2003	Utilized in 2004	Net Change in Estimate	Balance Dec 31, 2004
Category:							
Severance Costs	$ 13	$ (10)	$ (3)	$ —	$ —	$ —	$ —
Facilities Costs	164	(51)	16	129	(21)	—	108
Technology & fixed asset write-offs	—	—	—	—	—	—	—
Other costs	2	(2)	—	—	—	—	—
	$ 179	$ (63)	$ 13	$ 129	$ (21)	$ —	$ 108
Staff Reductions	8	(8)	—	—	—	—	—

For information on the consolidated restructuring charges, refer to Note 16 to the Consolidated Financial Statements in the Annual Report.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Merrill Lynch & Co., Inc.:

We have audited the consolidated financial statements of Merrill Lynch & Co., Inc. and subsidiaries ("Merrill Lynch") as of December 31, 2004 and December 26, 2003, and for each of the three years in the period ended December 31, 2004, management's assessment of the effectiveness of Merrill Lynch's internal control over financial reporting as of December 31, 2004, and the effectiveness of Merrill Lynch's internal control over financial reporting as of December 31, 2004, and have issued our reports thereon dated March 2, 2005; such consolidated financial statements and reports are included in the Merrill Lynch 2004 Annual Report to Shareholders and are included and incorporated herein by reference. Our audits also included the financial statement schedule of Merrill Lynch & Co., Inc., listed in Item 15. Such financial statement schedule is the responsibility of Merrill Lynch's management. Our responsibility is to express an opinion based on our audits. In our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ Deloitte & Touche LLP
New York, New York
March 2, 2005

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on the 15th day of March 2005.

Merrill Lynch & Co., Inc.
Registrant

JUDITH A. WITTERSCHEIN	**/s/ Judith A. Witterschein** **Judith A. Witterschein** **Secretary**

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant in the capacities indicated on the 15th day of March 2005.

E. STANLEY O'NEAL	**/s/ E. Stanley O'Neal** **E. Stanley O'Neal** **Director, Chairman of the Board and Chief Executive Officer** **(Principal Executive Officer)**
AHMASS L. FAKAHANY	**/s/ Ahmass L. Fakahany** **Ahmass L. Fakahany** **Executive Vice President and Chief Financial Officer** **(Principal Financial Officer)**
LAURENCE A. TOSI	**/s/ Laurence A. Tosi** **Laurence A. Tosi** **Vice President and Finance Director** **(Principal Accounting Officer)**
W. H. CLARK	**/s/ W. H. Clark** **W. H. Clark** **Director**
JILL K. CONWAY	**/s/ Jill K. Conway** **Jill K. Conway** **Director**
ALBERTO CRIBIORE	**/s/ Alberto Cribiore** **Alberto Cribiore** **Director**
JOHN D. FINNEGAN	**/s/ John D. Finnegan** **John D. Finnegan** **Director**
HEINZ-JOACHIM NEUBÜRGER	**/s/ Heinz-Joachim Neubürger** **Heinz-Joachim Neubürger** **Director**
DAVID K. NEWBIGGING	**/s/ David K. Newbigging** **David K. Newbigging** **Director**
AULANA L. PETERS	**/s/ Aulana L. Peters** **Aulana L. Peters** **Director**
JOSEPH W. PRUEHER	**/s/ Joseph W. Prueher** **Joseph W. Prueher** **Director**
ANN N. REESE	**/s/ Ann N. Reese** **Ann N. Reese** **Director**
CHARLES O. ROSSOTTI	**/s/ Charles O. Rossotti** **Charles O. Rossotti** **Director**

INDEX TO EXHIBITS

Exhibits	
3.1	Restated Certificate of Incorporation of ML & Co., effective as of May 3, 2001 (Exhibit 3.1 to 8-K dated March 9, 2005).
3.2	Certificate of Designations for ML & Co. Floating Rate Non-Cumulative Preferred Stock, Series 1, par value $1.00 per share, effective as of October 25, 2004 (Exhibit 3.2 and 4.1 to 8-K dated March 9, 2005).
3.3	Certificate of Designations for ML & Co. Floating Rate Non-Cumulative Preferred Stock, Series 2, par value $1.00 per share, effective as of March 9, 2005 (Exhibit 3.3 and 4.2 to 8-K dated March 9, 2005).
3.4	By-Laws of ML & Co., effective as of April 28, 2003 (Exhibit 3 to 10-Q for the quarter ended March 28, 2003).
4.1	Senior Indenture, dated as of April 1, 1983, as amended and restated as of April 1, 1987, between ML & Co. and JPMorgan Chase Bank, N.A. (“1983 Senior Indenture”) and the Supplemental Indenture thereto dated as of March 15, 1990 (filed as Exhibit 4(i) to 10-K for fiscal year ended December 29, 1999 (“1999 10-K”)).
4.2	Sixth Supplemental Indenture to the 1983 Senior Indenture, dated as of October 25, 1993, between ML & Co. and JPMorgan Chase Bank, N.A. (filed as Exhibit 4(ii) to 1999 10-K).
4.3	Twelfth Supplemental Indenture to the 1983 Senior Indenture, dated as of September 1, 1998, between ML & Co. and JPMorgan Chase Bank, N.A. (filed as Exhibit 4(a) to 8-K dated October 21, 1998).
4.4	Thirteenth Supplemental Indenture to the 1983 Senior Indenture, dated as of July 31, 2002, between ML & Co. and JPMorgan Chase Bank, N.A. (filed as Exhibit 4(b)(vii) to S-3 (file no. 333-109802)).
4.5	Fourteenth Supplemental Indenture to the 1983 Senior Indenture, dated as of September 23, 2002, between ML & Co. and JPMorgan Chase Bank, N.A. (filed as Exhibit 4(b)(viii) to S-3 (file no. 333-109802)).
4.6	Fifteenth Supplemental Indenture to the 1983 Senior Indenture, dated as of October 14, 2003, between ML & Co. and JPMorgan Chase Bank, N.A. (filed as Exhibit 4(b)(ix) to S-3 (file no. 333-109802)).
4.7	Sixteenth Supplemental Indenture to the 1983 Senior Indenture, dated as of June 4, 2004, between ML & Co. and JPMorgan Chase Bank, N.A. (filed as Exhibit 4(b)(xii) to S-3 (file no. 333-122639)).
4.8	Seventeenth Supplemental Indenture to the 1983 Senior Indenture, dated as of October 14, 2004, between ML & Co. and JPMorgan Chase Bank, N.A. (filed as Exhibit 4(b)(xiii) to S-3 (file no. 333-122639)).
4.9	Eighteenth Supplemental Indenture to the 1983 Senior Indenture, dated as of October 21, 2004, between ML & Co. and JPMorgan Chase Bank, N.A. (filed as Exhibit 4(b)(xiv) to S-3 (file no. 333-122639)).
4.10	Senior Indenture, dated as of October 1, 1993 between ML & Co. and JPMorgan Chase Bank, N.A. (“1993 Senior Indenture”) (filed as Exhibit (4)(iv) to 10-K for fiscal year ended December 25, 1998 (“1998 10-K”)).
4.11	First Supplemental Indenture to the 1993 Senior Indenture, dated as of June 1, 1998, between ML & Co. and JPMorgan Chase Bank, N.A. (filed as Exhibit 4(a) to 8-K dated July 2, 1998).
4.12	Indenture, dated as of May 23, 2001, between ML & Co. and JPMorgan Chase Bank, N.A. relating to ML & Co.’s Liquid Yield Option tm Notes due 2031 (Zero Coupon — Senior) (filed as Exhibit 4.4 to 10-Q for the quarter ended September 24, 2004 (“Third Quarter 2004 10-Q”).
4.13	First Supplemental Indenture, dated as of November 1, 2004, between ML & Co. and JPMorgan Chase Bank, N.A. relating to ML & Co.’s Liquid Yield Option tm Notes due 2031 (Zero Coupon — Senior) (filed as Exhibit 4.5 to Third Quarter 2004 10-Q).
4.14	Second Supplemental Indenture, dated as of November 9, 2004, between ML & Co. and JPMorgan Chase Bank, N.A. relating to ML & Co.’s Liquid Yield Option tm Notes due 2031 (Zero Coupon — Senior) (filed as Exhibit 4 to 8-K dated November 10, 2004).
4.15	Indenture, dated as of March 13, 2002, between ML & Co. and JPMorgan Chase Bank, N.A. relating to ML & Co.’s Liquid Yield Option tm Notes due 2032 (Zero Coupon — Floating Rate — Senior) (filed as Exhibit 4.6 to Third Quarter 2004 10-Q).
4.16	First Supplemental Indenture, dated as of November 1, 2004, between ML & Co. and JPMorgan Chase Bank, N.A. relating to ML & Co.’s Liquid Yield Option tm Notes due 2032 (Zero Coupon — Floating Rate — Senior) (filed as Exhibit 4.7 to Third Quarter 2004 10-Q).
4.17	Indenture, dated as of December 14, 2004, between ML & Co. and JPMorgan Chase Bank, N.A., relating to ML & Co.’s Exchange Liquid Yield Option tm Notes due 2032 (Zero Coupon — Floating Rate — Senior) (filed as Exhibit 4(a)(vii) to S-3 (file no. 333-122639)).
4.18	Deposit Agreement, dated as of November 1, 2004, between ML & Co., JPMorgan Chase Bank, N.A., as Depositary, and the holders from time to time of the Floating Rate Non-Cumulative Preferred Stock, Series 1 depositary shares of ML & Co. (filed as Exhibit 2 to Form 8-A dated October 26, 2004).
4.19	Deposit Agreement, dated as of March 14, 2005, between ML & Co., JPMorgan Chase Bank, N.A., as Depositary, and the holders from time to time of the Floating Rate Non-Cumulative Preferred Stock, Series 2 depositary shares of ML & Co. (filed as Exhibit 2 to Form 8-A dated March 11, 2005).

Exhibits	
4.20	Form of Amended and Restated Rights Agreement dated as of December 2, 1997, between ML & Co. and Wells Fargo Bank, N.A. (successor to Mellon Investor Services, L.L.C.) (filed as Exhibit 4 to 8-K dated December 2, 1997).
10.1	ML & Co. Equity Capital Accumulation Plan, as amended through July 26, 1999 (Exhibit 10(iii) to 10-Q for the quarter ended June 25, 1999.
10.2	Written description of retirement programs for non-employee directors (pages 29 and 30 of ML & Co.'s Proxy Statement for the 2005 Annual Meeting of Shareholders contained in ML & Co.'s Schedule 14A filed on March 15, 2005).
10.3*	Form of Severance Agreement between ML & Co. and certain of its directors and executive officers.
10.4	Form of Indemnification Agreement entered into with all current directors of ML & Co. and to be entered into with all future directors of ML & Co. (Exhibit 10(viii) to 1998 10-K).
10.5	Written description of ML & Co.'s incentive compensation programs (Exhibit 10(ix) to 1998 10-K).
10.6†	Written description of ML & Co.'s compensation policy for directors and executive officers (pages 28 to 30 and pages 37 to 46 of ML & Co.'s Proxy Statement for the 2005 Annual Meeting of Shareholders contained in ML & Co.'s Schedule 14A filed on March 15, 2005).
10.7	Form of Amended and Restated Agreement of Limited Partnership of Merrill Lynch KECALP L.P. 1994 (Exhibit (a)(ii) to Registration Statement on Form N-2 (file No. 33-51825)).
10.8	Form of Amended and Restated Agreement of Limited Partnership of Merrill Lynch KECALP L.P. 1997 (Exhibit (a)(ii) to Registration Statement on Form N-2 (file No. 333-15035)).
10.9	Form of Amended and Restated Agreement of Limited Partnership of Merrill Lynch KECALP L.P. 1999 (Exhibit (a)(ii) to Registration Statement on Form N-2 (file No. 333-59143)).
10.10	ML & Co. Deferred Restricted Unit Plan for Executive Officers (Exhibit 10(xxiii) to 10-K for fiscal year ended December 27, 1996 ("1996 10-K")).
10.11	Amendment dated February 12, 1998 to the ML & Co. Deferred Restricted Unit Plan for Executive Officers (Exhibit 10.32 to 10-K for the fiscal year ended December 26, 1997 ("1997 10-K")).
10.12	ML & Co. Fee Deferral Plan for Non-Employee Directors, as amended through April 15, 1997 (Exhibit 10 to 10-Q for the quarter ended March 28, 1997).
10.13	Form of ML & Co. Amended and Restated 1994 Deferred Compensation Agreement for a Select Group of Eligible Employees, as amended through November 10, 1994 (Exhibit 10(ii) to 1999 10-K).
10.14	ML & Co. 1995 Deferred Compensation Plan for a Select Group of Eligible Employees (Exhibit 10(xix) to 1999 10-K).
10.15	ML & Co. 1996 Deferred Compensation Plan for a Select Group of Eligible Employees (Exhibit 10(i) to 10-Q for the quarter ended September 29, 1995).
10.16	ML & Co. 1997 Deferred Compensation Plan for a Select Group of Eligible Employees (Exhibit 10(xxvii) to 1996 10-K).
10.17	ML & Co. 1998 Deferred Compensation Plan for a Select Group of Eligible Employees (Exhibit 10(i) to 10-Q for the quarter ended September 26, 1997).
10.18	ML & Co. 1999 Deferred Compensation Plan for a Select Group of Eligible Employees (Exhibit 10 to 10-Q for the quarter ended September 25, 1998).
10.19	ML & Co. 2000 Deferred Compensation Plan for a Select Group of Eligible Employees (Exhibit 10(xxiv) to 1999 10-K).
10.20	ML & Co. 2001 Deferred Compensation Plan for a Select Group of Eligible Employees (Exhibit 10(xxiii) to 10-K for the fiscal year ended December 28, 2001 ("2001 10-K").
10.21	ML & Co. 2002 Deferred Compensation Plan for a Select Group of Eligible Employees (Exhibit 10(xxv) to 2001 10-K).
10.22	ML & Co. 2003 Deferred Compensation Plan for a Select Group of Eligible Employees (Exhibit 10.26 to 10-K for the fiscal year ended December 27, 2002 ("2002-10-K")).
10.23	ML & Co. 2004 Deferred Compensation Plan for a Select Group of Eligible Employees (Exhibit 10 to 10-Q for the quarter ended September 26, 2003).
10.24	ML & Co. 2005 Deferred Compensation Plan for a Select Group of Eligible Employees (Exhibit 10 to 8-K dated October 8, 2004).
10.25	ML & Co. 1997 KECALP Deferred Compensation Plan for a Select Group of Eligible Employees (Exhibit 10(i) to 10-Q for the quarter ended June 27, 1997).
10.26	Amendment dated September 18, 1996 to Deferred Compensation Plans (amending the Amended and Restated 1994 Deferred Compensation Agreement for a Select Group of Eligible Employees, the ML & Co. 1995 Deferred Compensation Plan for a Select Group of Eligible Employees and the ML & Co. 1996 Deferred Compensation Plan for a Select Group of Eligible Employees) (Exhibit 10(xxxii) to 1996 10-K).
10.27	Amendment dated February 12, 1998 to the ML & Co. Deferred Compensation Plans for a Select Group of Eligible Employees for the years 1994, 1995, 1996 and 1997 (Exhibit 10.31 to 1997 10-K).
10.28	Merrill Lynch Financial Advisor Capital Accumulation Award Plan (Exhibit 10.30 to 2002 10-K).

Exhibits	
10.29	ML & Co. Deferred Stock Unit and Stock Option Plan for Non-Employee Directors (Exhibit 10.32 to 10-K for the fiscal year ended December 26, 2003).
10.30	ML & Co. Long-Term Incentive Compensation Plan for Managers and Producers, as amended April 27, 2001 (Exhibit 10(xxx) to 2001 10-K).
10.31	ML & Co. Long-Term Incentive Compensation Plan for executive officers, as amended April 27, 2001 (Exhibit 10(i) to 10-Q for the quarter ended June 29, 2001).
10.32	Form of Executive Annuity Agreement by and between ML & Co. and certain of its high level senior executive officers (Exhibit 10(xxxii) to 2001 10-K).
10.33	ML & Co. Employee Stock Compensation Plan (Exhibit C to ML & Co.'s Proxy Statement for the 2003 Annual Meeting of Shareholders contained in ML & Co.'s Schedule 14A filed on March 14, 2003).
10.34	Form of grant document for executive officers under the ML & Co. Long-Term Incentive Compensation Plan (Exhibit 10.1 to 10-Q for the quarter ended September 24, 2004).
10.35	Form of Restricted Covenant Agreement between ML&Co. and its executive officers (Exhibit 10 to 8-K dated September 17, 2004).
11	Statement re: computation of earnings per common share (the calculation of per share earnings is in Part II, Item 8, Note 10 to the Consolidated Financial Statements (Stockholders' Equity and Earnings Per Share) and is omitted in accordance with Section (b)(11) of Item 601 of Regulation S-K).
12*	Statement re: computation of ratios.
13*	Excerpt of 2004 Annual Report to Shareholders.
14.1	ML & Co. Guidelines for Business Conduct: Merrill Lynch's Code of Ethics for Directors, Officers and Employees (Exhibit 99.11 to 2002 10-K).
14.2	ML & Co. Code of Ethics for Financial Professionals (Exhibit 99.1 to 10-Q for the quarter ended September 26, 2003).
21*	Subsidiaries of ML & Co.
23*	Consent of Independent Registered Public Accounting Firm, Deloitte & Touche LLP.
31.1*	Rule 13a-14(a) Certification of the Chief Executive Officer.
31.2*	Rule 13a-14(a) Certification of the Chief Financial Officer.
32.1*	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.1*	Report of Independent Registered Public Accounting Firm, Deloitte & Touche LLP, with respect to the information set forth in Exhibit 12 under the captions "Ratio of Earnings to Fixed Charges" and "Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends."
99.2*	Report of Independent Registered Public Accounting Firm, Deloitte & Touche LLP, with respect to information set forth in the "Selected Financial Data" table, which is incorporated by reference in Part II, Item 6, under the captions "Results of Operations," "Financial Position" and "Common Share Data".
99.3*	Charter of the Audit Committee of the ML & Co. Board of Directors.
99.4	Charter of the Finance Committee of the ML & Co. Board of Directors (Exhibit 99.6 to 2002 10-K).
99.5	Charter of the Management Development and Compensation Committee of the ML & Co. Board of Directors (Exhibit 99.7 to 2002 10-K for the fiscal year ended December 27, 2002).
99.6	Charter of the Nominating and Corporate Governance Committee of the ML & Co. Board of Directors (Exhibit 99.8 to 2002 10-K).
99.7	Charter of the Public Policy and Responsibility Committee of the ML & Co. Board of Directors (Exhibit 99.1 to 10-Q for the quarter ended June 27, 2003).

* Filed herewith

Exhibit 10.3

Dear ______:

Merrill Lynch & Co., Inc. ("*ML & Co.*") considers it essential to the best interests of its stockholders to foster the continuous employment of key management personnel. Further, the Board of Directors of ML & Co. (the "*Board*") recognizes that the possibility of a change in control exists, and that such possibility, and the uncertainty and questions that it may raise among management, may result in the departure or distraction of management personnel to the detriment of ML & Co. and its stockholders.

The Board has determined that appropriate steps should be taken to reinforce and encourage the continued attention and dedication of members of the management of ML & Co. and its subsidiaries (the "*Company*"), including yourself, to their assigned duties without distraction in the face of potentially disturbing circumstances arising from any possible change in control of ML & Co.

In order to induce you to remain in the employ of the Company, ML & Co. agrees that you shall receive the severance benefits set forth in this letter agreement (this "*Agreement*") in the event your employment with the Company is terminated subsequent to a Change in Control (as defined in Section 2 hereof) under the circumstances described below.

1. Term of Agreement. The term of this Agreement (the "*Term*") shall commence on the date hereof and shall continue in effect through _________; provided, however, that commencing on__________and each __________ hereafter, the original Term of this Agreement shall automatically be extended for one additional year unless, not later than _________ of the preceding year, ML & Co. shall have given notice that it does not wish to extend the Term. Notwithstanding any such notice by ML & Co. not to extend the Term, if a Change in Control shall have occurred during the original or extended Term, the Term shall continue in effect for a period of _______ (___) months beyond the Term in effect immediately before such Change in Control.

2. Change in Control. No benefits shall be payable hereunder unless there shall have been a Change in Control, as set forth below. For purposes of this Agreement, a "*Change in Control*" shall mean a change in control of ML & Co. of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A promulgated

under the Securities Exchange Act of 1934, as amended (the "*Exchange Act*"),whether or not ML & Co. is then subject to such reporting requirement; provided that, without limitation, a Change in Control shall be deemed to have occurred if:

(A) any individual, partnership, firm, corporation, association, trust, unincorporated organization or other entity, or any syndicate or group deemed to be a person under Section 14(d)(2) of the Exchange Act, is or becomes the "*beneficial owner*" (as defined in Rule 13d-3 of the General Rules and Regulations under the Exchange Act), directly or indirectly, of securities of ML & Co. representing 30% or more of the combined voting power of ML & Co.'s then outstanding securities entitled to vote in the election of directors of ML & Co.;

(B) during any period of two (2) consecutive years (not including any period prior to the execution of this Agreement), individuals who at the beginning of such period constituted the Board and any new directors, whose election by the Board or nomination for election by ML & Co.'s stockholders was approved by a vote of at least three quarters (3/4) of the directors then still in office who either were directors at the beginning of the period or whose election or nomination for election was previously so approved, cease for any reason to constitute a majority thereof; or

(C) all or substantially all of the assets of ML & Co. are liquidated or distributed.

If ML & Co. executes an agreement, the consummation of which would result in the occurrence of a Change in Control as described above, then, with respect to a termination of employment, unless such termination is because of your death or Retirement, by the Company for Cause or Disability, or by you other than for Good Reason, occurring after the execution of such agreement (and, if such agreement expires or is terminated prior to consummation, prior to such expiration or termination of such agreement), a Change in Control shall be deemed to have occurred as of the date of the execution of such agreement.

3 . Termination Following Change in Control. If any of the events described in Section 2 hereof constituting a Change in Control shall have occurred, you shall be entitled to the benefits provided in Subsection 4(D) hereof upon the subsequent termination of your employment during the Term unless such termination is due to your death, Disability, or Retirement, by the Company for Cause, or by you other than for Good Reason.

(A) Disability. You shall be deemed to have incurred a "*Disability*" upon a determination by the insurance carrier then responsible for long-term disability payments that you are eligible for such payments (which determination shall require that you have been absent from the full-time performance of your duties with the Company for six (6) consecutive months). Any question as to the existence of your Disability upon which you and the carrier cannot agree shall be determined by a qualified independent physician selected by you (or, if you are unable to make such selection, by any adult member of your immediate family) and approved by the carrier. The determination of such physician made in writing to the carrier and to you shall be final and conclusive for all purposes of this Agreement.

(B) Retirement. Termination of your employment based on "*Retirement*" shall mean your voluntary termination of employment on or after your fifty-fifth (55th) birthday and your completion of ten (10) or more years of service.

(C) Cause. Termination by the Company of your employment for "*Cause*" shall mean termination upon (i) the willful and continued failure by you substantially to perform your duties with the Company (other than any such failure resulting from your incapacity due to physical or mental illness or from your Retirement or any such actual or anticipated failure resulting from termination by you for Good Reason) after a written demand for substantial performance is delivered to you by the Board, which demand specifically identifies the manner in which the Board believes that you have not substantially performed your duties, or (ii) the willful engaging by you in conduct that is demonstrably and materially injurious to the Company, monetarily or otherwise. For purposes of this Subsection, no act or failure to act on your part shall be deemed "*willful*" unless done, or omitted to be done, by you not in good faith and without reasonable belief that your action or omission was in the best interest of the Company. Notwithstanding the foregoing, you shall not be deemed to have been terminated for Cause unless and until there shall have been delivered to you a copy of a resolution duly adopted by the affirmative vote of not less than three quarters (3/4) of the entire membership of the Board at a meeting of the Board called and held for such purpose (after reasonable notice to you and an opportunity for you, together with your counsel, to be heard before the Board), finding that in the good faith opinion of the Board you were guilty of conduct set forth above in clause (i) or (ii) of the first sentence of this subsection and specifying the particulars thereof in detail.

(D) Good Reason. You shall be entitled to terminate your employment for Good Reason. For purposes of this Agreement, "*Good Reason*" shall mean, without your express written consent, any of the following:

(i) Inconsistent Duties. A meaningful and detrimental alteration in your position or in the nature or status of your responsibilities (including those as a director of ML & Co., if any) from those in effect immediately prior to the Change in Control;

(ii) Reduced Salary or Bonus Opportunity. A reduction by the Company in your annual base salary as in effect on the date hereof or as the same may be increased from time to time; a failure by the Company to increase your salary at a rate commensurate with that of other key executives of the Company; or a reduction in your annual bonus below the greater of (a) the annual bonus which you received, or to which you were entitled, immediately prior to the Change in Control, or (b) the average annual bonus paid to you by the Company for the three years preceding the year in which the Change in Control occurs.

(iii) Relocation. The relocation of the office of the Company where you are employed at the time of the Change in Control (the "*CIC Location*") to a location which in your good faith assessment is an area not generally considered conducive to maintaining the executive offices of a company such as ML & Co.

because of hazardous or undesirable conditions including without limitation a high crime rate or inadequate facilities, or to a location which is more that fifty (50) miles away from the CIC Location or the Company's requiring you to be based more than fifty (50) miles away from the CIC Location (except for required travel on the Company's business to an extent substantially consistent with your customary business travel obligations in the ordinary course of business prior to the Change in Control);

(iv) Compensation Plans. The failure by the Company to continue in effect any compensation plan in which you participate, including but not limited to the Company's retirement program, Employee Stock Purchase Plan, 1978 Incentive Equity Purchase Plan, Equity Capital Accumulation Plan, Canadian Capital Accumulation Plan, Management Capital Accumulation Plan, Long-Term Incentive Compensation Plan, limited partnership offerings, cash incentive compensation or any other plans adopted and in effect prior to the Change in Control, unless an equitable arrangement (embodied in an ongoing substitute or alternative plan) has been made with respect to such plan in connection with the Change in Control, or the failure by the Company to continue your participation therein on at least as favorable a basis, both in terms of the amount of benefits provided and the level of your participation relative to other participants, as existed at the time of the Change in Control;

(v) Benefits and Perquisites. The failure by the Company to continue to provide you with benefits at least as favorable as those enjoyed by you under any of the Company's retirement, life insurance, medical, health and accident, disability or savings plans in which you were participating at the time of the Change in Control; the taking of any action by the Company that would directly or indirectly materially reduce any of such benefits or deprive you of any material perquisite enjoyed by you at the time of the Change in Control including without limitation, the use of a car, secretary, office space, telephones, expense reimbursement and club dues; or the failure by the Company to provide you with the number of paid vacation days to which you are entitled on the basis of years of service with the Company in accordance with the Company's normal vacation policy in effect at the time of the Change in Control;

(vi) No Assumption by Successor. The failure of ML & Co. to obtain a satisfactory agreement from any successor to assume and agree to perform this Agreement, as contemplated in Section 5 hereof or, if the business of the Company for which your services are principally performed is sold at any time after a Change in Control, the purchaser of such business shall fail to agree to provide you with the same or a comparable position, duties, compensation and benefits (as described in subsections (iv) and (v) above) as provided to you by the Company immediately prior to the Change in Control; or

(vii) No Notice. Any purported termination of your employment which is not effected pursuant to a Notice of Termination satisfying the requirements of Subsection (E) below (and, if applicable, the requirements of Subsection (C) above); for purposes of this Agreement, no such purported termination shall be effective.

(E) Notice of Termination. Any purported termination of your employment by the Company or by you (other than for reasons of death, Disability, or Retirement) shall be communicated by written Notice of Termination to the other party hereto in accordance with Section 6 hereof. For purposes of this Agreement, a "*Notice of Termination*" shall mean a notice which shall indicate the specific termination provision in this Agreement relied upon and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of your employment under the provision so indicated.

(F) Date of Termination, Etc. "*Date of Termination*" shall mean (i) if your employment is terminated for Disability, thirty (30) days after a Notice of Termination is given (provided that you shall not have returned to the full-time performance of your duties during such thirty (30) day period), and (ii) if your employment is terminated pursuant to Subsection (C) or (D) above or for any other reason (other than Disability), the date specified in the Notice of Termination (which, in the case of a termination pursuant to Subsection (C) above shall not be less than thirty (30) days, and in the case of a termination pursuant to Subsection (D) above shall not be less than thirty (30) nor more than sixty (60) days from the date such Notice of Termination is given); provided that if within thirty (30) days after any Notice of Termination is given the party receiving such Notice of Termination notifies the other party that a dispute exists concerning the termination, the Date of Termination shall be the date on which the dispute is finally determined, either by mutual written agreement of the parties, by a binding arbitration award, or by a final judgment, order or decree of a court of competent jurisdiction (which is not appealable or the time for appeal therefrom having expired and no appeal having been perfected); provided further that the Date of Termination shall be extended by a notice of dispute only if such notice is given in good faith and the party giving such notice pursues the resolution of such dispute with reasonable diligence. Notwithstanding the pendency of any such dispute, the Company will continue to pay you your full compensation in effect when the notice giving rise to the dispute was given and continue you as a participant in all compensation, benefit, and insurance plans and perquisites in which you were participating when the notice giving rise to the dispute was given, until the dispute is finally resolved in accordance with this Subsection. Amounts paid under this Subsection are in addition to all other amounts due under this Agreement and shall not be offset against or reduce any other amounts due under this Agreement.

4 . Compensation Upon Termination or During Disability. Following a Change in Control upon termination of your employment or during Disability during the Term, ML & Co. shall cause there to be provided to you the following benefits:

(A) Disability. Upon your Disability, your benefits shall be determined in accordance with the Company's standard benefit and retirement programs and compensation plans then in effect including those listed in Subsection 3(D)(iv) hereof.

(B) Termination for Other than Good Reason or for Cause. If your employment shall be terminated by the Company for Cause or by you other than for Good Reason, death or Retirement, ML & Co. shall pay you your full base salary through the Date of Termination at the rate in effect at the time Notice of Termination is given and any amounts to be paid to you pursuant to the Company's standard benefit and retirement programs and compensation plans then in effect, including those listed in Subsection 3(D)(iv), and ML & Co. shall have no further obligations to you under this Agreement.

(C) your employment shall be terminated for Retirement, or by reason of your death, your benefits shall be determined in accordance with the Company's standard benefit and retirement programs and compensation plans then in effect including those listed in Subsection 3(D)(iv).

(D) Termination for Other Reasons. If your employment by the Company shall be terminated, unless such termination is because of your death, Disability, or Retirement, by the Company for Cause, or by you other than for Good Reason, then you shall be entitled to the benefits provided below:

(i) Base Salary. ML & Co. shall pay you your full base salary through the Date of Termination at the rate in effect at the time the Notice of Termination is given;

(ii) Severance Payment. In lieu of any further salary payments to you for periods subsequent to the Date of Termination, ML & Co. shall pay as severance to you, not later than the fifth (5th) day following the Date of Termination, a lump sum severance payment (the "*Severance Payment*") equal to the lesser of (I) 2.99 times the average of the annual compensation ("*Average Annual Compensation*") which was payable to you by the Company (or any corporation ("*Affiliate*") affiliated with the Company within the meaning of section 1504 of the Internal Revenue Code of 1986, as amended (the "*Code*"), determined without regard to section 1504(b) of the Code) and includible in your gross income for Federal income tax purposes (or, in the event that you are not subject to U.S. Federal Income tax, the amount that would have been included in your gross income had you been subject to U.S. Federal Income Tax) for the five (5) taxable years (the "*Base Period*") preceding your taxable year in which a Change in Control of ML & Co. occurred or (II) 2.99 times the average of the annual salary which was payable to you by the Company (or an Affiliate) during the Base Period and the annual bonus (the "*Bonus*") which was payable to you by the Company (or an Affiliate) with respect to performance during the Base Period. For purposes of clause (I) of the first sentence of this Section 4(D)(ii), the amount of your Average

Annual Compensation shall be determined in accordance with temporary or final regulations promulgated under section 280G(d) of the Code. Unless a different method of calculating your Average Annual Compensation is prescribed by such regulations, if you were not employed by the Company (or an Affiliate) during the entire Base Period, your Average Annual Compensation shall be the lesser of (a) the average of your annual compensation for the complete taxable years during the Base Period during which you were employed by the Company or (b) the average of your annual compensation for both complete and partial taxable years during the Base Period during which you were so employed, determined by annualizing any compensation (other than nonrecurring items) includible in your gross income for any partial taxable year or (c) the annual average of your total compensation for the Base Period during which you were so employed, determined by dividing such total compensation by the number of whole and fractional taxable years included in the Base Period. In computing your Average Annual Compensation, compensation payable to you by the Company (or an Affiliate) shall include every type and form of compensation includible in your gross income in respect of your employment by the Company (or an Affiliate), including compensation income recognized as a result of your exercise of stock options or sale of the stock so acquired, except to the extent otherwise provided in temporary or final regulations promulgated under section 280G(d) of the Code. For purposes of clause (II) of the first sentence of this Section 4(D)(ii), Bonus shall include (a) any annual cash bonus awarded under the Company's Variable Incentive Compensation Program or any similar or successor program thereto (including any amounts of cash bonus awarded with respect to performance during the Base Period but deferred for payment in subsequent years) and (b) the grant value (calculated for a particular grant as specified in the record of such grant filed with the minutes of the meetings of the Management Development and Compensation Committee, or any successor committee thereto, of the Merrill Lynch & Co., Inc. Board of Directors) of any annual award of restricted stock, restricted units, stock options or any other non-cash bonus compensation awarded with respect to performance during the Base Period under the Equity Capital Appreciation Plan, the Long-Term Incentive Compensation Plan or any similar or successor plans thereto. In the event that any portion of your compensation is not subject to U.S. Federal Income Tax during the Base Period, all such compensation shall be deemed to be subject to U.S. Federal Income tax for the purpose of making the calculations set forth in this Section 4(d(ii).

(iii) Legal Fees and Expenses. ML & Co. shall also pay to you all legal fees and expenses incurred by you as a result of such termination (including all such fees and expenses, if any, incurred in contesting or disputing any such termination or in seeking to obtain or enforce any right or benefit provided by this Agreement).

(iv) Supplemental Retirement Benefits. In addition to the benefits to which you are entitled under any pension plan or any annuity payable pursuant to the termination of any pension plan or any payment due under any 401(k) savings, pension or retirement program, ML & Co. shall pay you, not later than the fifth (5th) day following the Date of Termination, a cash amount equal to the retirement contribution that you would have been eligible to receive from the Company under the terms of the ML & Co. retirement program, consisting of the Retirement Accumulation Plan, the Employee Stock Ownership Plan and any applicable company contributions to the 401(k) Savings & Investment Plan or other similar plan (without regard to any amendment to such retirement program made subsequent to the Change in Control and on or prior to the Date of Termination, which amendment adversely affects in any manner the computation of retirement benefits thereunder), or any successor program or plan that may be in effect at the time of the Change in Control, determined as if you were fully vested thereunder and has continued (after the Date of Termination) to be employed for an additional twenty-four (24) months at your highest annual rate of compensation during the twelve (12) months immediately preceding the Date of Termination for purposes of determining your basic contributions and any applicable supplemental contributions. In addition to the payment made by ML & Co. pursuant to the foregoing sentence, ML & Co. shall pay you an amount sufficient to cover the income taxes, if any, that accrue solely by virtue of your receipt of such payment.

(v) Other Benefits. ML & Co. will pay you, not later than the fifth (5th) day following the Date of Termination, a lump sum in lieu of continued benefits, as follows:

Medical

24 times the monthly cost to an employee of coverage for medical insurance pursuant to the provisions of the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended ("*COBRA*") whether or not you are eligible for COBRA benefits. You may elect COBRA coverage, if then available, for a period of 18 months following the Date of Termination and, if then available, elect to convert to an individual policy, if these elections are made within the appropriate time frames. In the event you are not eligible under the provisions of COBRA, you will receive 24 times the monthly cost to ML & Co. or its relevant affiliate of coverage for medical insurance for you and your dependents under the ML & Co. policy, and you may elect and apply such amount to the premiums required for you to remain a participant in such policy, if permitted in accordance with its terms.

Life Insurance

Two times the annual cost to convert your basic non-contributory Merrill Lynch Group Insurance to a one year term policy. No payment shall be made to replace supplemental contributory coverage.

Disability Insurance

Six times the dollar amount accrued annually by ML & Co. for your basic long-term disability insurance plus four times your current annual premium for coverage under ML & Co.'s supplemental long-term disability program.

Business Travel Accident, and Accidental Death and Dismemberment

Two times your current annual premium for coverage under ML & Co.'s Business Travel Accident and Accidental Death and Dismemberment insurance.

Any calculations required to be made under this Section 4(D)(v) shall be made by the Company in a fair and equitable manner that the Company, in its sole discretion, may select. In addition to the payments made by ML & Co. pursuant to this Section 4(D)(v), ML & Co. shall pay you an amount sufficient to cover the income taxes, if any, that accrue solely by virtue of your receipt of such payments (except for any payment with respect to life insurance benefits that would have been taxable under Section 79 of the Internal Revenue Code of 1986, as amended, if you had remained an employee of ML & Co.).

(vi) Employee Benefit Plans. You shall be entitled to receive all benefits payable to you under the Company's standard benefit and retirement programs and compensation plans not otherwise specifically provided for in Subsection 4(D), including those listed in Subsection 3(D)(iv).

(E) No Mitigation. You shall not be required to mitigate the amount of any payment provided for in this Section 4 by seeking other employment or otherwise, nor shall the amount of any payment of benefit provided for in this Section 4 be reduced by any compensation earned by you as the result of employment by another employer or by any retirement benefits received after the Date of Termination.

(F) Reduction of Payments In Certain Cases. Notwithstanding anything herein to the contrary, if any amounts due to you under this Agreement and any other plan or program of ML & Co. constitute a "*parachute payment*" (as defined in Section 280G(b)(2) of the Code), and the amount of the parachute payment, reduced by all federal, state and local taxes applicable thereto, including the excise tax imposed pursuant to Section 4999 of the Code, is less than the amount you would receive if you were paid three times your "*base amount*" (as defined in Section 280G(b)(3) of the Code), less $1.00, reduced by all federal, state and local taxes applicable thereto, then the aggregate of the amounts constituting the parachute payment shall be reduced to an amount that will equal three times your base amount less $1.00. The provisions of this Section 4(F) shall be applied to you and any amounts received or to be received by you as if all such amounts were subject to U.S. Federal Income taxes, including Section 280G of the Code. The determinations to be made with respect to this subsection 4(F) shall be made by an accounting firm (the "*Auditor*") jointly selected by ML & Co. and you and paid by ML & Co. The Auditor shall be a nationally recognized United States public accounting firm that has not during the two years preceding the date of its selection acted, in any way, on behalf of ML & Co. or any of its subsidiaries. If you and ML & Co. cannot agree on the firm to serve as the Auditor, then you and ML & Co. shall each select one accounting firm and these two firms shall jointly select the accounting firm to serve as the Auditor. If a determination is made by the Auditor that a reduction in the aggregate of all payments due to you upon a Change in Control is required by this subsection 4(F), you shall have the right to specify the portion of such reduction, if any, that will be made under this Agreement and each plan or program of ML & Co. If you do not so specify within sixty (60) days following the date of a determination by the Auditor pursuant to the preceding sentence, ML & Co. shall determine, in its sole discretion, the portion of such reduction, if any, to be made under this Agreement and each plan or program of ML & Co.

5 . Successors; Binding Agreement. (A) Assumption By Successor. ML & Co. will require any successor (whether direct or indirect, by purchaser, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of ML & Co. to expressly assume and agree to perform this Agreement in the same manner and to the same extent that ML & Co. would be required to perform it if no such succession had taken place. Failure of ML & Co. to obtain such assumption and agreement prior to the effectiveness of any such succession shall be a breach of this Agreement and shall entitle you to compensation from ML & Co. in the same amount and on the same terms as you would be entitled hereunder if you had terminated your employment for Good Reason following a Change in Control, except that for purposes of implementing the foregoing, the date on which any such succession becomes effective shall be deemed the Date of Termination. As used in this Agreement, "*ML & Co*." shall mean ML & Co. as hereinbefore defined and any successor to its business and/or assets as aforesaid which assumes and agrees to perform this Agreement by operation of law, or otherwise.

(B) Enforceability By Beneficiaries. This Agreement shall inure to the benefit of and be enforceable by your personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If you should die while any amount would still be payable to you hereunder if you had continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to your devisee, legatee or other designee or, if there is no such designee, to your estate.

6 . Notice. For the purpose of this Agreement, notices and all other communications provided for in the Agreement shall be in writing and shall be deemed to have been duly given when delivered or mailed by United States registered mail, return receipt requested, postage prepaid, addressed to the ___________, Merrill Lynch & Co., Inc., ___________, with a copy to the ___________., or to you at the address set forth on the first page of this Agreement or to such other address as either party may have furnished to the other in writing in accordance herewith, except that notice of change of address shall be effective only upon receipt.

7. Miscellaneous. No provision of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing. No waiver by either party hereto at any time of any breach by the other party hereto of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. No agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party that are not expressly set forth in this Agreement and this Agreement shall supersede all prior agreements, negotiations, correspondence, undertakings and communications of the parties, oral or written, with respect to the subject matter hereof. The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the State of New York applicable to contracts entered into and performed in such State.

8. Validity. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

9. Counterparts. This Agreement may be executed in several counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same instrument.

10. Arbitration. Any dispute or controversy arising under or in connection with this Agreement shall be settled exclusively by arbitration in New York in accordance with the rules of the American Arbitration Association then in effect. Judgment may be entered on the arbitrator's award in any court having jurisdiction; provided, however, that you shall be entitled to seek specific performance of your right to be paid until the Date of Termination during the pendency of any dispute or controversy arising under or in connection with this Agreement.

11. No Contract of Employment. Nothing in this Agreement shall be construed as giving you any right to be retained in the employ of the Company.

12. Headings. The headings contained in this Agreement are intended solely for convenience and shall not affect the rights of the parties to this Agreement.

If this letter sets forth our agreement on the subject matter hereof, kindly sign and return to ML & Co. the enclosed copy of this letter which will then constitute our agreement on this subject.

Sincerely,

MERRILL LYNCH & CO., INC.

By ______________________________

Agreed to as of the _____ day of _____, _____

____

Exhibit 12

MERRILL LYNCH & CO., INC. AND SUBSIDIARIES
COMPUTATION OF RATIOS OF EARNINGS TO FIXED CHARGES AND
COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS
(dollars in millions)

	Year Ended Last Friday in December				
	2004 (53 weeks)	2003 (52 weeks)	2002 (52 weeks)	2001 (52 weeks)	2000 (52 weeks)
Pre-tax earnings (loss) (a)	$ 5,436	$ 5,040	$ 2,343	$ (228)	$ 4,994
Add: Fixed charges (excluding capitalized interest and preferred security dividend requirements of subsidiaries)	10,618	8,011	10,044	17,322	18,532
Pre-tax earnings before fixed charges	16,054	13,051	12,387	17,094	23,526
Fixed charges:					
Interest	10,414	7,819	9,838	17,069	18,278
Other (b)	204	193	206	260	287
Total fixed charges	10,618	8,012	10,044	17,329	18,565
Preferred stock dividend requirements	55	52	52	54	55
Total combined fixed charges and preferred stock dividends	$ 10,673	$ 8,064	$ 10,096	$ 17,383	$ 18,620
Ratio of earnings to fixed charges	**1.51**	**1.63**	**1.23**	**0.99(c)**	**1.27**
Ratio of earnings to combined fixed charges and preferred stock dividends	**1.50**	**1.62**	**1.23**	**0.98(c)**	**1.26**

(a) Excludes undistributed earnings (loss) from equity investees.

(b) Other fixed charges consist of the interest factor in rentals, amortization of debt issuance costs, preferred security dividend requirements of subsidiaries, and capitalized interest.

(c) Earnings were insufficient to cover fixed charges and combined fixed charges and preferred dividend requirements by $235 million and $289 million, respectively.

FINANCIAL MANAGEMENT

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SELECTED FINANCIAL DATA

(dollars in millions, except per share amounts)

	Year Ended Last Friday in December 2004 (53 weeks)	2003 (52 weeks)	2002 (52 weeks)	2001 (52 weeks)	2000 (52 weeks)
Results of Operations					
Total Revenues	**$ 32,467**	$ 27,708	$ 28,186	$ 38,627	$ 44,690
Less Interest Expense	**10,444**	7,840	9,871	17,104	18,311
Net Revenues	**22,023**	19,868	18,315	21,523	26,379
Non-Interest Expenses	**16,187**	14,648	16,003	21,764	21,388
Earnings (Loss) Before Income Taxes	**5,836**	5,220	2,312	(241)	4,991
Income Tax Expense	**1,400**	1,384	604	99	1,548
Net Earnings (Loss)	**$ 4,436**	$ 3,836	$ 1,708	$ (340)	$ 3,443
Net Earnings (Loss) Applicable to Common Stockholders[1]	**$ 4,395**	$ 3,797	$ 1,670	$ (378)	$ 3,404
Financial Position					
Total Assets	**$ 648,059**	$ 496,143	$ 451,419	$ 437,083	$ 424,760
Short-Term Borrowings[2]	**$ 260,757**	$ 191,544	$ 180,213	$ 178,155	$ 187,176
Long-Term Borrowings	**$ 116,484**	$ 83,299	$ 78,524	$ 76,572	$ 70,223
Long-Term debt issued to TOPrS[SM] partnerships	**$ 3,092**	$ 3,203	$ 3,189	$ 3,181	$ 3,193
Total Stockholders' Equity	**$ 31,370**	$ 28,884	$ 24,081	$ 20,787	$ 18,619
Common Share Data					
(in thousands, except per share amounts)					
Earnings (Loss) Per Share:					
Basic	**$ 4.81**	$ 4.22	$ 1.94	$ (0.45)	$ 4.26
Diluted	**$ 4.38**	$ 3.87	$ 1.77	$ (0.45)	$ 3.74
Weighted-Average Shares Outstanding:					
Basic	**912,935**	900,711	862,318	838,683	798,273
Diluted	**1,003,779**	980,947	947,282	838,683	909,124
Shares Outstanding at Year End[3]	**928,037**	945,911	867,291	843,474	807,955
Book Value Per Share	**$ 32.99**	$ 29.96	$ 27.07	$ 23.95	$ 22.34
Dividends Paid Per Share	**$ 0.64**	$ 0.64	$ 0.64	$ 0.64	$ 0.61
Financial Ratios					
Pre-Tax Profit Margin[4]	**26.5%**	26.3%	12.6%	N/M	18.9%
Common Dividend Payout Ratio	**13.3%**	15.2%	33.0%	N/M	14.3%
Return on Average Assets	**0.8%**	0.8%	0.4%	N/M	1.0%
Return on Average Common Stockholders' Equity	**14.9%**	14.8%	7.5%	N/M	21.7%
Other Statistics					
Full-Time Employees:					
U.S.	**40,200**	38,200	40,000	43,400	51,700
Non-U.S.	**10,400**	9,900	10,900	13,700	19,900
Total[5]	**50,600**	48,100	50,900	57,100	71,600
Private Client Financial Advisors	**14,100**	13,500	14,000	16,400	20,200
Client Assets (dollars in billions)	**$ 1,574**	$ 1,486	$ 1,311	$ 1,556	$ 1,681

1 Net earnings (loss) less preferred stock dividends.

2 Consists of Payables under repurchase agreements and securities loaned transactions, Commercial paper and other short-term borrowings, and Deposits.

3 Does not include 2,783; 2,900; 3,911; 4,195; and 4,654 shares exchangeable into common stock at year-end 2004, 2003, 2002, 2001, and 2000, respectively. See Note 10 to the Consolidated Financial Statements.

4 Earnings before income taxes to Net revenues.

5 Excludes 100; 200; 1,500; and 3,500 full-time employees on salary continuation severance at year-end 2004, 2003, 2002 and 2001, respectively.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis Table of Contents

Forward Looking Statements

Certain statements in this report may be considered forward-looking, including those about management expectations, strategic objectives, growth opportunities, business prospects, anticipated financial results, the impact of off balance sheet arrangements, significant contractual obligations, anticipated results of litigation and regulatory investigations and proceedings, and other similar matters. These forward-looking statements represent only Merrill Lynch & Co., Inc.'s ("ML & Co." and, together with its subsidiaries, "Merrill Lynch") beliefs regarding future performance, which is inherently uncertain. There are a variety of factors, many of which are beyond Merrill Lynch's control, which affect its operations, performance, business strategy and results and could cause its actual results and experience to differ materially from the expectations and objectives expressed in any forward-looking statements. These factors include, but are not limited to, actions and initiatives taken by both current and potential competitors, general economic conditions, the effects of current, pending and future legislation, regulation and regulatory actions, and the other risks and uncertainties detailed in Merrill Lynch's Form 10-K and in the following sections. Accordingly, readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the dates on which they are made. Merrill Lynch does not undertake to update forward-looking statements to reflect the impact of circumstances or events that arise after the dates they are made. The reader should, however, consult further disclosures Merrill Lynch may make in future filings of its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K.

OVERVIEW

Introduction

Merrill Lynch is a holding company that, through its subsidiaries, provides broker-dealer, investment banking, financing, wealth management, advisory, asset management, insurance, lending, and related products and services on a global basis. In addition, Merrill Lynch engages in market-making activities on behalf of its clients and for its own account, as well as in private equity and other principal investment activities. The financial services industry, in which Merrill Lynch is a leading participant, is extremely competitive and highly regulated. This industry and the global financial markets are influenced by numerous unpredictable factors. These factors include economic conditions, monetary and fiscal policies, the liquidity of global markets, international and regional political events, acts of war or terrorism, changes in applicable laws and regulations, the competitive environment and investor sentiment. In addition to these factors, Merrill Lynch may be affected by regulatory and legislative initiatives that may affect the conduct of their business, including increased regulation, and by the outcome of legal and regulatory investigations and proceedings. These factors can significantly affect the volatility of the financial markets. As a result, volumes, revenues and net earnings may vary significantly from period to period in our industry, particularly affecting businesses such as brokerage, trading, investment banking, commercial banking, wealth management and asset management.

Regulatory Environment

The financial services industry is also impacted by the regulatory and legislative environment. In 2004, additional aspects of the Sarbanes-Oxley Act of 2002 were implemented as rules relating to internal control over financial reporting and current reporting requirements became effective and/or were adopted in their final form. The Securities and Exchange Commission ("SEC") also adopted rules and/or rule amendments that establish a voluntary, alternative method of computing deductions to net capital for certain broker-dealers, and registration requirements for advisors to certain private investment pools, and it proposed rules that would modify the offering process for securities. Various federal and state securities regulators, self-regulatory organizations (including the New York Stock Exchange and the National Association of Securities Dealers) and industry participants also continued to review and, in many cases, adopt changes to their established rules and policies in areas such as corporate governance, research analyst conflicts of interest and qualifications, practices related to the initial public offering ("IPO") of equity securities, mutual fund trading, disclosure practices and auditor independence.

On June 8, 2004, the SEC adopted rule amendments under the Securities Exchange Act of 1934 that establish a voluntary, alternative method of computing deductions to net capital for certain broker-dealers. These amendments are intended to reduce regulatory capital costs for broker-dealers by allowing very highly capitalized firms that have comprehensive internal controls and risk management practices in place to use their mathematical risk models to calculate certain regulatory capital charges. Further, these amendments establish consolidated supervision of the broker-dealer's holding company on a group-wide basis. The rule amendments respond in part to the European Union ("EU") Financial Conglomerates (or "Financial Groups") Directive effective from January 1, 2005. Under that directive, financial groups that conduct business through regulated financial entities in the EU must demonstrate that they are subject to equivalent consolidated supervision at the ultimate holding company level. In respect of the EU Financial Groups Directive, the U.K. Financial Services Authority ("FSA") has determined that the SEC undertakes equivalent consolidated supervision for Merrill Lynch.

The application filed with the SEC by Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLPF&S"), the firm's principal U.S. broker-dealer, under the net capital rule amendments was approved on December 23, 2004. As a result, effective January 1, 2005 MLPF&S is able to use the alternative methods of computing market and credit risk capital charges, and, as a condition of using these methods, Merrill Lynch has consented to group-wide supervision by the SEC. As such, Merrill Lynch will compute allowable capital and allowances thereto; permit the SEC to examine the books and records of the holding company and any affiliate that does not have a principal regulator; and adopt various additional SEC reporting, record-keeping, and notification requirements. Merrill Lynch is now referred to as a Consolidated Supervised Entity ("CSE"). Merrill Lynch expects that being a CSE will likely impose additional costs and impact decisions relative to monitoring capital adequacy.

Merrill Lynch continues to work closely with regulators to assess the impact of compliance with the new Basel II capital standards, which the Basel Committee on Banking Supervision adopted in June 2004. Merrill Lynch, like all other large financial services firms, is actively analyzing the Basel II framework and related implementation costs. As rules governing implementation of Basel II are released, Merrill Lynch expects to begin the process of complying with the new framework.

Business Environment

Global financial markets improved in 2004, with increased momentum in the latter part of the year despite continued concerns about rising interest rates, oil prices and geopolitical uncertainties. Equity markets, which declined in the first half of the year, increased pace after the summer period, carrying the major equity indices to new post-2000 highs. Fixed income markets also remained active despite rising short-term interest rates and a flattening yield curve during the second half of the year.

The yield on the 10-year U.S. Treasury bond, used as a benchmark for long-term interest rates, commenced 2004 at 4.25% and moved as high as 4.87% in June. During the second half of the year, the yield fell to 3.97% in October before rebounding slightly in the last two months, to finish the year at 4.22%. Increased foreign demand for U.S. debt securities contributed to yields remaining low, despite the U.S. Federal Reserve raising the federal funds rate five times during the year to 2.25% from 1.0%.

U.S. equity indices finished 2004 with moderate gains, despite concerns regarding rising interest rates and oil prices, inflation, the weakening dollar, the presidential election and geopolitical concerns. The Nasdaq Composite Index, dominated by large-capitalization technology stocks, rose 8.6% for the year. The Standard and Poor's 500 stock index, which through mid-October had a year-to-date decline, finished with a 9.0% increase for the year and the Dow Jones Industrial Average ended the year with a 3.1% gain.

Global equity indices experienced favorable results, primarily due to strong economic growth, rising corporate profits and a weak dollar. The Dow Jones World Index, excluding the United States, rose 19.2% in U.S. dollars during the year. Despite slow economic growth, European stock markets posted moderate returns as evidenced by the 18.0% gain, in U.S. dollars, for the Dow Jones Stoxx 600 index. These returns were bolstered by the strengthening of the euro against the U.S. dollar during 2004 of approximately 7%. The best performances in Europe came from secondary markets, as Austria, Norway and Belgium posted gains of 57.4%, 39.1% and 30.7%, respectively. Asian stock markets performed well, supported by foreign-capital inflows and positive economic growth. The greatest returns among the major Asia-Pacific stock markets were produced by Australia, Singapore, and Hong Kong, with gains of 22.8%, 17.1% and 13.2%, respectively. Benefiting from strong commodity prices, emerging markets throughout Latin America outperformed the developed world.

Global debt and equity underwriting volumes increased to $5.7 trillion, up 6% for the year, according to Thomson Financial Securities Data. Debt issuances increased only 4%, to $5.2 trillion, as compared to a 26% increase in 2003, reflecting the five interest-rate increases by the Federal Reserve during the year. Underwriting fees for both stocks and bonds increased 7% to $15.4 billion due in part to increased higher-fee IPO activity. According to Thomson Financial Securities Data, both the 249 IPOs and the $48.1 billion raised in the United States in IPOs were the highest since 2000.

Merger and acquisition activity increased significantly in 2004 with particular momentum in the fourth quarter as December was the busiest month since August 2000. According to Thomson Financial Securities Data, the global value of announced deals rose 42% to $2 trillion for the year, the highest level since 2000. In the United States, the value of announced deals increased 47% to $834 billion for the year according to Thomson Financial Securities Data. The value of completed deals rose 26%, to $1.5 trillion, for the year on a global basis, and 61%, to $748 billion, for the year in the United States, according to Thomson Financial Securities Data.

Merrill Lynch continually evaluates its businesses for profitability, performance, and client service and for alignment with its long-term strategic objectives under varying market and competitive conditions. The strategy of maintaining long-term client relationships, closely monitoring costs and risks, diversifying revenue sources, and growing fee-based revenues all continue as objectives to mitigate the effects of a volatile market environment on Merrill Lynch's business as a whole.

Business Drivers

During 2004, Merrill Lynch continued to make investments to grow revenues and earnings, and further diversify revenue sources across and within asset classes, and across regions. In Global Markets and Investment Banking ("GMI"), investments were targeted at building capabilities in asset classes where Merrill Lynch previously had little or no presence, as well as hiring selectively in investment banking. These investments are now largely complete. In Global Private Client ("GPC"), 600 Financial Advisors ("FAs") were hired, increasing the FA force by 5%. At the same time, Merrill Lynch maintained a disciplined focus on strong operating leverage. Despite a year of uncertainty in the markets that made conditions difficult at times, Merrill Lynch achieved strong financial performance and, more importantly, executed on operating plans to invest in key growth opportunities.

In GMI, there has been a continued emphasis on diversifying revenue sources in both fixed income and equity trading, and selectively increasing proprietary trading in certain asset classes. GMI acquired a commodities trading business, which positions the firm as a leader in natural gas, electricity and weather contracts. GMI is also initiating steps to enter additional commodity markets such as refined products and coal trading, as well as expand the platform into Asia and further build out its presence in Europe. The global principal investing and secured finance business ("GPISF") was also an area of substantial investment in 2004. GMI continued to build out its presence in mortgage-backed trading and securitization, accelerating growth in this area through the acquisition of a U.S.-based sub-prime mortgage servicer and a U.K.-based residential mortgage servicer. In the equities business, GMI continued to achieve market leadership in full-service cash trading, and is making significant technology investments to build out its electronic order execution and prime brokerage capabilities. In addition, GMI acquired a clearing business in 2004 and strengthened its electronic client interface capability through the acquisition of two electronic trading platforms. In 2005, GMI's plans include growth in certain businesses, including commodities, equities, GPISF, prime brokerage, foreign exchange, and leveraged finance.

In Investment Banking, GMI globally targeted hiring to strengthen its leading presence in industry groups including financial institutions, real estate and energy and power, as well as building out coverage of consumer retail and industrial companies.

GMI also expanded its investment banking presence covering middle-market companies, and filled gaps in areas where it was underrepresented, such as leveraged finance and corporate derivatives. Outside of the United States, GMI will continue to strengthen its investment banking capability in Europe and the Pacific Rim.

GPC continued to demonstrate the benefits of its focus on revenue diversification, asset annuitization and growth in FAs in a year with uncertain market conditions. GPC has established itself as a market leader in terms of revenues and pre-tax earnings, FA productivity, and client service. Investment in training and retention of FAs remains a priority.

Merrill Lynch Investment Managers ("MLIM") continued to generate strong investment performance while focusing on broadening the distribution of its products and maintaining operating discipline. Third-party retail mutual fund sales in Europe and Asia continue to be a strong area of growth for MLIM. Revenues from these products grew substantially during 2004 and equaled revenues from institutional products in those regions for the first time during the 2004 fourth quarter. MLIM also launched a joint venture in China during 2004. Key growth areas for MLIM for 2005 and beyond are further expansion of the U.S. non-proprietary and U.S. institutional long-term channels, as well as the European and Asian third-party retail distribution channel. These areas have generated annual revenue growth for MLIM of 15% since 2002, and now represent 25% of MLIM's revenues, up from 20% in 2002.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The following is a summary of Merrill Lynch's critical accounting policies.

Use of Estimates

In presenting the Consolidated Financial Statements, management makes estimates regarding:

- Valuations of certain trading inventory and investment securities;
- The outcome of litigation;
- Cash flow projections used in determining whether variable interest entities ("VIEs") should be consolidated;
- Tax reserves;
- The realization of deferred tax assets;
- The allowance for loan losses;
- The carrying amount of goodwill;
- Valuation of employee stock options;
- Insurance reserves and recovery of insurance deferred acquisition costs; and
- Other matters that affect the reported amounts and disclosure of contingencies in the financial statements.

Estimates, by their nature, are based on judgment and available information. Therefore, actual results could differ from those

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estimates and could have a material impact on the Consolidated Financial Statements, and it is possible that such changes could occur in the near term. For more information regarding the specific methodologies used in determining estimates, refer to Use of Estimates in Note 1 to the Consolidated Financial Statements.

Valuation of Financial Instruments

Proper valuation of financial instruments is a critical component of Merrill Lynch's financial statement preparation. Fair values for exchange-traded securities and certain exchange-traded derivatives, principally futures and certain options, are based on quoted market prices. Fair values for over-the-counter ("OTC") derivative financial instruments, principally forwards, options, and swaps, represent amounts estimated to be received from or paid to a third party in settlement of these instruments. These derivatives are valued using pricing models based on the net present value of estimated future cash flows, and directly observed prices from exchange-traded derivatives, other OTC trades, or external pricing services, while taking into account the counterparty's credit ratings, or Merrill Lynch's own credit ratings as appropriate.

New and/or complex instruments may have immature or limited markets. As a result, the pricing models used for valuation often incorporate significant estimates and assumptions, which may impact the level of precision in the Consolidated Financial Statements. For long-dated and illiquid contracts, extrapolation methods are applied to observed market data in order to estimate inputs and assumptions that are not directly observable. This enables Merrill Lynch to mark-to-market all positions consistently when only a subset of prices is directly observable. Values for OTC derivatives are verified using observed information about the costs of hedging out the risk and other trades in the market. As the markets for these products develop, Merrill Lynch continually refines its pricing models based on experience to correlate more closely to the market risk of these instruments. Obtaining the fair value for OTC derivative contracts requires the use of management judgment and estimates. Unrealized gains at the inception of the derivative are not recognized at the inception of the contract unless significant inputs to the valuation model are observable in the market.

Merrill Lynch holds investments that may have quoted market prices but that are subject to restrictions (e.g., consent of the issuer or other investors to sell) that may limit Merrill Lynch's ability to realize the quoted market price. Accordingly, Merrill Lynch estimates the fair value of these securities based on management's best estimate, which incorporates pricing models based on projected cash flows, earnings multiples, comparisons based on similar market transactions and/or review of underlying financial conditions and other market factors.

Valuation adjustments are an integral component of the mark-to-market process and are taken for individual positions where either the sheer size of the trade or other specific features of the trade or particular market (such as counterparty credit quality, concentration or market liquidity) requires adjustment to the values derived by the pricing models.

Because valuation may involve significant estimation where readily observable prices are not available, a categorization of Merrill Lynch's financial instruments based on liquidity of the instrument and the amount of estimation required in determining its value as recorded in the Consolidated Financial Statements is provided below.

Assets and liabilities recorded on the balance sheet can be broadly categorized as follows:

1. Highly liquid cash and derivative instruments, primarily carried at fair value, for which quoted market prices are readily available (for example, exchange-traded equity securities, listed options, and U.S. Government securities).
2. Liquid instruments, primarily carried at fair value, including:
   a) Cash instruments for which quoted prices are available but which trade less frequently such that there may not be complete pricing transparency for these instruments across all market cycles (for example, corporate and municipal bonds and certain physical commodities);
   b) Derivative instruments that are valued using a model, where inputs to the model are directly observable in the market (for example, U.S. dollar interest rate swaps); and
   c) Instruments that are priced with reference to financial instruments whose parameters can be directly observed (for example, certain trading loans).
3. Less liquid instruments that are valued using management's best estimate of fair value, and instruments which are valued using a model, where either the inputs to the model and/or the models themselves require significant judgment by management (for example, private equity investments, long-dated or complex derivatives such as certain foreign exchange options and credit default swaps, distressed debt and aged inventory positions and commodity derivatives, such as long-dated options on gas and power and weather derivatives).

At December 31, 2004 and December 26, 2003, certain assets and liabilities on the Consolidated Balance Sheets can be categorized using the above classification scheme as follows:

(dollars in millions)

2004	Category 1	Category 2	Category 3	Total
Assets				
Trading assets, excluding contractual agreements	**$ 74,767**	**$ 62,488**	**$ 2,716**	**$139,971**
Contractual agreements	**5,240**	**32,329**	**4,410**	**41,979**
Investment securities	**8,820**	**63,010**	**6,020**	**77,850**
Liabilities				
Trading liabilities, excluding contractual agreements	**$ 51,763**	**$ 11,039**	**$ 1,269**	**$ 64,071**
Contractual agreements	**9,081**	**36,334**	**5,743**	**51,158**

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(dollars in millions) **2003**	Category 1	Category 2	Category 3	Total
Assets				
Trading assets, excluding contractual agreements	$ 49,072	$ 46,390	$ 1,593	$97,055
Contractual agreements	4,969	28,548	3,672	37,189
Investment securities	10,478	59,603	4,714	74,795
Liabilities				
Trading liabilities, excluding contractual agreements	$ 36,276	$ 8,485	$ 1,205	$45,966
Contractual agreements	6,938	32,605	3,806	43,349

In addition, other trading-related assets recorded in the Consolidated Balance Sheets at year-end 2004 and 2003, include $173.4 billion and $117.1 billion of securities financing transactions (receivables under resale agreements and receivables under securities borrowed transactions), which are recorded at their contractual amounts, which approximate fair value, and for which little or no estimation is required by management.

Merrill Lynch also has investments in certain non-U.S. GAAP entities, which are accounted for under the equity method of accounting. Merrill Lynch makes certain estimates in converting these entities to a U.S. GAAP basis of accounting. Merrill Lynch recorded approximately $400 million and $179 million of net revenues related to equity method investments during 2004 and 2003, respectively.

Litigation

Merrill Lynch is involved in a significant number of lawsuits, arbitrations, investigations and/or proceedings by governmental and self-regulatory agencies. Given the number of these matters, some are likely to result in adverse judgments, settlements, penalties, injunctions, fines, or other relief. Merrill Lynch believes it has strong defenses to, and where appropriate, will vigorously contest many of these matters. In accordance with Statement of Financial Accounting Standards ("SFAS") No. 5, *Accounting for Contingencies,* when resolution of cases is both probable and estimable, Merrill Lynch will accrue a liability. In many lawsuits and arbitrations, including class action lawsuits, it is not possible to determine whether a liability has been incurred or to estimate the ultimate or minimum amount of that liability until the case is close to resolution, in which case no accrual is made until that time. In view of the inherent difficulty of predicting the outcome of such matters, particularly in cases in which claimants seek substantial or indeterminate damages, Merrill Lynch cannot predict what the eventual loss or range of loss related to such matters will be. Merrill Lynch continues to assess these matters and believes, based on information available to it, that the resolution of these matters will not have a material adverse effect on the financial condition of Merrill Lynch as set forth in the Consolidated Financial Statements, but may be material to Merrill Lynch's operating results or cash flows for any particular period and may impact ML & Co.'s credit ratings. See Note 11 to the Consolidated Financial Statements for additional information on litigation.

Variable Interest Entities ("VIEs")

In the normal course of business, Merrill Lynch enters into a variety of transactions with VIEs. The applicable accounting guidance requires Merrill Lynch to perform a qualitative and quantitative analysis of a VIE to determine whether it is the primary beneficiary of the VIE and therefore must consolidate the VIE. In performing this analysis, Merrill Lynch makes assumptions regarding future performance of assets held by the VIE, taking into account estimates of credit risk, estimates of the fair value of assets, timing of cash flows, and other significant factors. It should also be noted that, although a VIE's actual results may differ from projected outcomes, a revised consolidation analysis is not required.

Changes in Estimates

Trading Inventory Valuations

During 2004, Merrill Lynch refined its credit valuation adjustment methodology relating to certain debt and equity derivatives, which increased GMI's net revenues by $22 million. Merrill Lynch also modified certain volatility assumptions within its equity derivatives valuation models, which resulted in a $56 million decrease in GMI's 2004 net revenues.

Income Taxes

A valuation allowance for deferred taxes was established in 2001 related to net operating losses and other temporary differences in Japan. Merrill Lynch's 2004 review of the valuation allowance resulted in the reversal of the remaining valuation allowance of $215 million. In addition, Merrill Lynch utilized $66 million of this allowance in 2004. Income tax expense in 2004 was reduced by these amounts.

Merrill Lynch is under examination by the Internal Revenue Service ("IRS") and other tax authorities in major countries such as Japan and the United Kingdom, and states in which Merrill Lynch has significant business operations, such as New York. The tax years under examination vary by jurisdiction; for example, the current IRS examination covers 2001-2003, while the current examination by the Tokyo Regional Tax Bureau covers 1998-2002. Merrill Lynch expects to receive a tax assessment from the Tokyo Regional Tax Bureau in 2005. At issue is the Japanese tax authority's view that certain income Merrill Lynch previously paid tax on to other international jurisdictions, primarily the United States, should have been allocated to Japan. Merrill Lynch intends to take steps to prevent duplication of taxes, including obtaining clarification from international authorities on the appropriate allocation of income among multiple jurisdictions. Merrill Lynch regularly assesses the likelihood of additional assessments in each of the tax jurisdictions resulting from these examinations. Tax reserves have been established, which Merrill Lynch believes to be adequate in relation to the potential for additional assessments. However, there is a reasonable possibility that additional amounts may be incurred. Management believes

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that the estimated range of the additional possible amount is between $0 and $150 million. This range and the level of reserves are adjusted when there is more information available, or when an event occurs requiring a change to the reserves. The reassessment of tax reserves could have a material impact on Merrill Lynch's effective tax rate.

RESULTS OF OPERATIONS

(dollars in millions, except per share amounts)

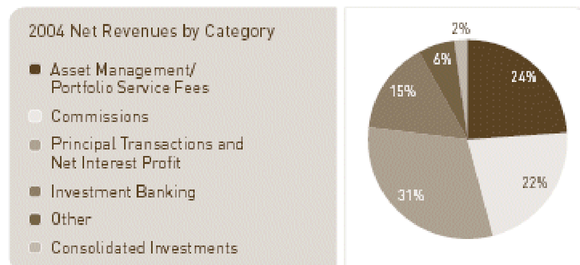
	2004	2003	2002
Net revenues			
Asset management and portfolio service fees	**$ 5,440**	$ 4,698	$ 4,911
Commissions	**4,877**	4,299	4,529
Principal transactions	**2,300**	3,233	2,331
Investment banking	**3,261**	2,628	2,413
Revenues from consolidated investments	**346**	70	(26)
Other	**1,270**	1,111	818
Subtotal	**17,494**	16,039	14,976
Interest and dividend revenues	**14,973**	11,669	13,210
Less interest expense	**10,444**	7,840	9,871
Net interest profit	**4,529**	3,829	3,339
Total net revenues	**22,023**	19,868	18,315
Non-interest expenses			
Compensation and benefits	**10,596**	9,810	10,677
Communications and technology	**1,461**	1,457	1,741
Occupancy and related depreciation	**893**	889	909
Brokerage, clearing, and exchange fees	**773**	676	688
Professional fees	**705**	580	551
Advertising and market development	**533**	429	540
Expenses of consolidated investments	**231**	68	(8)
Office supplies and postage	**203**	197	258
Other	**792**	689	568
Net recoveries related to September 11	**–**	(147)	(212)
Research and other settlement-related expenses	**–**	–	291
Total non-interest expenses	**16,187**	14,648	16,003
Earnings before income taxes	**$ 5,836**	$ 5,220	$ 2,312
Net earnings	**$ 4,436**	$ 3,836	$ 1,708
Earnings per common share			
Basic	**$ 4.81**	$ 4.22	$ 1.94
Diluted	**4.38**	3.87	1.77
Annualized return on average common stockholders' equity	**14.9%**	14.8%	7.5%
Pre-tax profit margin	**26.5**	26.3	12.6
Compensation and benefits as a percentage of net revenues	**48.1%**	49.4%	58.3%
Non-compensation expenses as a percentage of net revenues	**25.4%**	24.4%	29.1%

Consolidated Results of Operations

Merrill Lynch's net earnings were $4.4 billion in 2004, up 16% from $3.8 billion in 2003. Earnings per diluted share were $4.38, compared with $3.87 in 2003. Net earnings in 2003 included $91 million of after-tax September 11-related net insurance recoveries ($147 million pre-tax) and after-tax net benefits from restructuring and other charges of $3 million ($20 million of pre-tax expense). Net earnings in 2002 included $126 million of September 11-related net insurance recoveries ($212 million pre-tax), research and other settlement-related expenses of $207 million ($291 million pre-tax), and $42 million of after-tax net benefits from restructuring and other charges ($8 million of pre-tax expense).

In 2004, the return on average common stockholders' equity was 14.9% and the pre-tax profit margin was 26.5%. The 2003 return on average common stockholders' equity was 14.8% and the pre-tax profit margin was 26.3%.

The following chart illustrates the composition of net revenues by category in 2004:



Net revenues in 2004 were $22.0 billion, 11% higher than in 2003. Asset management and portfolio service fees in 2004 were $5.4 billion, up 16%, due primarily to higher portfolio servicing fees arising from higher average equity market values in 2004, as well as increased investment and fund management fees. The majority of these fees are calculated on beginning-of-period asset values and lag market movements by three to six months. Asset management and portfolio service fees in 2004 also reflect an increased proportion of higher yielding assets. Commission revenues in 2004 were $4.9 billion, up 13% due primarily to a global increase in client transaction volumes, particularly in listed equities and mutual funds. Principal transactions revenues in 2004 decreased 29%, to $2.3 billion, due to significantly lower debt and debt derivatives trading revenues as compared to 2003, which benefited from a more favorable interest rate and credit environment. Net interest profit in 2004 was $4.5 billion, up 18% due primarily to increased secured lending activity and increases in short-term interest rates, partially offset by increased credit provisions related to small- and middle-market lending in GPC. Due to the nature of Merrill Lynch's businesses, principal transactions revenues and net interest profit are better analyzed on an aggregate basis. On this basis, these revenues were $6.8 billion in 2004, compared with $7.1 billion in 2003. Investment banking revenues were $3.3 billion in 2004, an increase of 24% from 2003.

These revenues included underwriting revenues of $2.6 billion and strategic advisory revenues of $683 million, both of which were 24% higher than in 2003, due to increased transaction volume as market conditions improved. Revenues from consolidated investments were $346 million, up from $70 million in 2003 reflecting the full-year impact of entities consolidated in late 2003, as well as the impact of entities consolidated in 2004. Other revenues in 2004 increased 14%, to $1.3 billion, due primarily to increased revenues from equity method investments and lower write-downs of available-for-sale securities, partially offset by lower gains on sales of mortgages.

Net revenues in 2003 were $19.9 billion, 8% higher than in 2002. Asset management and portfolio service fees in 2003 were $4.7 billion, down 4% due primarily to lower portfolio servicing fees arising from lower average equity market values in 2003. Commission revenues in 2003 were $4.3 billion, down 5% due primarily to a global decline in client transaction volumes, particularly in listed equities and mutual funds. Principal transactions revenues in 2003 increased 39%, to $3.2 billion, due to increased debt and debt derivatives trading revenues resulting from a favorable interest rate and credit environment for most of the year. Net interest profit in 2003 was $3.8 billion, up 15% due primarily to a more favorable yield curve environment. On an aggregate basis, principal transactions revenues and net interest profit were $7.1 billion in 2003, an increase of 25% from 2002. Investment banking revenues were $2.6 billion in 2003, an increase of 9% from 2002 due to higher debt underwriting revenues, partially offset by lower equity underwriting and strategic advisory revenues. Underwriting revenues were $2.1 billion in 2003, a 21% increase from 2002; strategic advisory revenues were $551 million in 2003, 22% lower than the prior year as the volume of global completed mergers and acquisitions declined. Other revenues in 2003 increased 36%, to $1.1 billion, due primarily to increased revenue from equity method investments and increased realized gains on sales of mortgages. These increases were partially offset by write-downs of certain available-for-sale securities that were considered impaired on an other-than-temporary basis.

Compensation and benefits expenses were $10.6 billion in 2004, an increase of 8% from 2003. The increase was due primarily to higher incentive compensation expenses resulting from increased net revenues, higher financial advisor compensation, and increased staffing levels. The compensation ratio depends on the absolute level of net revenues, the business mix underlying those revenues and industry compensation trends. Compensation and benefits expenses were 48.1% of net revenues in 2004, compared to 49.4% of net revenues in 2003. Non-compensation expenses, including expenses of consolidated investments, were $5.6 billion in 2004, compared to $4.8 billion in 2003 ($5.0 billion excluding net recoveries related to September 11 and net restructuring and other charges).

Brokerage, clearing and exchange (“BC&E”) fees were $773 million, up 14% from 2003 due in part to the acquisition of a clearing business. Certain BC&E fees were reclassified and are now netted against related fee income in other revenues. Prior periods have been reclassified and the impact for 2003 and 2002 was $46 million and $39 million, respectively. Professional fees were $705 million in 2004, up 22% from 2003 due principally to higher legal, consulting and recruiting fees. Advertising and market development expenses were $533 million, up 24% from 2003 due primarily to increased travel expenses, sales promotion costs and deal-related expenses. Expenses of consolidated investments were $231 million, up from $68 million in 2003, reflecting the full-year impact of entities consolidated in late 2003 and entities consolidated in 2004. Other expenses were $792 million in 2004, up 15% from 2003 principally due to higher litigation provisions.

Net recoveries related to September 11 were $147 million in 2003 and $212 million in 2002. Merrill Lynch concluded its insurance recovery efforts in 2003, after collecting a total of $725 million since 2001. Also included in 2002 non-interest expenses were $291 million of research and other settlement-related expenses. See Note 16 to the Consolidated Financial Statements for additional information regarding these items.

Compensation and benefits expenses of $9.8 billion in 2003 decreased 8% from 2002 as the impact of a change in the vesting period for employee stock option awards and the impact of reductions resulting from lower staffing levels more than offset higher incentive compensation expenses, a function of increased net revenues. In 2003, Merrill Lynch changed its vesting policy for employee stock option awards from six months to four years. Compensation and benefits expenses were 49.4% of net revenues in 2003, compared to 58.3% in 2002. Non-compensation expenses were $4.8 billion in 2003, compared to $5.3 billion in 2002. Excluding the impact of net recoveries related to September 11, research and other settlement-related expenses, and net restructuring and other charges, non-compensation expenses were $5.0 billion in 2003, a reduction of $274 million, or 5% from the 2002 level.

Communications and technology costs were $1.5 billion in 2003, down 16% from 2002 due to reduced technology equipment depreciation, telephone expenses, maintenance costs, and system consulting costs. Advertising and market development expenses were $429 million, down 21% from 2002 due primarily to reduced spending on advertising and sales promotion. Office supplies and postage decreased 24% from 2002, to $197 million, due to efficiency initiatives and lower staffing levels. Other expenses were $689 million in 2003, up 21% from 2002 due primarily to higher litigation provisions.

Income Taxes

Merrill Lynch’s 2004 income tax provision was $1.4 billion, representing a 24.0% effective tax rate compared with 26.5% in 2003. The 2004 effective tax rate decreased from the prior year, reflecting the mix of U.S. and foreign-sourced income, and utilization and the reversal of the $281 million Japanese valuation allowance, primarily related to the Japan private client business,

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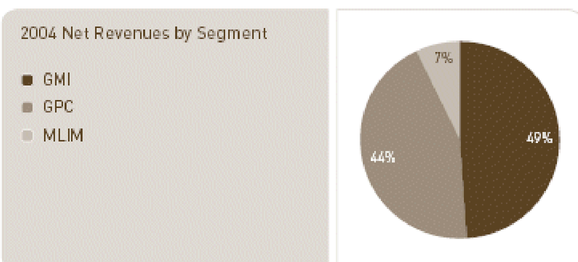
which was restructured in 2001. The 2003 effective tax rate increased slightly from the 2002 rate of 26.1% and reflected a net benefit related to changes in estimates for prior years and settlements with various tax authorities of $220 million. Net earnings in 2002 reflected the tax benefits associated with the wind-down of the Merrill Lynch HSBC joint venture, as well as the lower tax rate associated with certain European, Asian and other non-U.S. operations and a net benefit of $77 million related to prior years and settlements with various tax authorities. Deferred tax assets and liabilities are recorded for the effects of temporary differences between the tax basis of an asset or liability and its reported amount in the Consolidated Financial Statements. Merrill Lynch assesses its ability to realize deferred tax assets within each jurisdiction, primarily based on a strong earnings history and other factors as discussed in SFAS No. 109, *Accounting for Income Taxes.* During the last 10 years, average annual pre-tax earnings were $3.1 billion. Accordingly, management believes that it is more likely than not that remaining deferred tax assets, net of the remaining related valuation allowance will be realized. See Note 14 to the Consolidated Financial Statements for further information.

Business Segments

The following discussion provides details of the operating performance for each Merrill Lynch business segment, as well as details of products and services offered. The discussion also includes details of net revenues by segment. Certain prior year amounts have been restated to conform to the current year presentation.

Merrill Lynch reports its results in three business segments: GMI, GPC, and MLIM. GMI provides full service global markets and origination capabilities, products and services to corporate, institutional, and government clients around the world. GPC provides wealth management products and services globally to individuals, small- to mid-size businesses, and employee benefit plans. MLIM manages financial assets for individual, institutional and corporate clients.



Certain MLIM and GMI products are distributed through GPC distribution channels, and, to a lesser extent, certain MLIM products are distributed through GMI. Revenues and expenses associated with these intersegment activities are recognized in each segment and eliminated at the corporate level. In addition, revenue and expense sharing agreements for joint activities between segments are in place, and the results of each segment reflect the agreed-upon apportionment of revenues and expenses associated with these activities. The following segment results represent the information that is relied upon by management in its decision-making processes. These results exclude items reported in the Corporate segment. Business segment results are restated to reflect reallocations of revenues and expenses that result from changes in Merrill Lynch's business strategy and organizational structure. See Note 2 to the Consolidated Financial Statements for further information.

Global Markets and Investment Banking

GMI provides equity, debt and commodities trading, capital markets services, investment banking and strategic merger and acquisition advisory services to issuer and investor clients around the world. GMI raises capital for its clients through securities underwritings, private placements, and loan syndications. GMI also makes a market in securities, derivatives, currencies, and other financial instruments to satisfy client demands, and in connection with proprietary trading activities. Merrill Lynch has one of the largest equity trading and underwriting operations in the world and is a leader in the origination and distribution of equity products. GMI is also a leader in the global origination and distribution of fixed income products. GMI's client-focused strategy provides investors with opportunities to diversify their portfolios, manage risk, and enhance returns. GMI also provides clients with financing, securities clearing, settlement, and custody services. GMI also engages in principal investments and secured finance as well as private equity investing.

GMI capitalized on its more diversified portfolio of revenue sources and strong client relationships to generate increased revenue and pre-tax earnings growth in 2004, despite an environment where economic and geopolitical uncertainty affected the markets to varying degrees throughout the year. Both Global Markets and Investment Banking increased net revenues over 2003, by 5% and 30%, respectively.

In 2004, GMI invested in profitable growth opportunities and improved client alignment and product capabilities, while becoming more focused on providing superior execution and service. During 2004, key investments were made in commodities, electronic trading, and in the principal investing and secured financing business. This has resulted in growth in the number of GMI employees in 2004, principally due to strategic acquisitions. GMI's target strategic growth areas for 2005 include commodities, equity derivatives, portfolio trading, prime brokerage, principal investing and secured financing, private equity and foreign exchange.

During 2004, GMI acquired an energy trading business from Entergy-Koch, L.P., helping to further diversify GMI's revenue profile. This transaction expanded GMI's product array to include natural gas, electricity and weather contracts, and will help GMI to expand its business into additional energy commodities, such as refined products and coal. In addition, GMI also acquired two electronic trading platforms in 2004, which strengthened GMI's electronic interfacing capabilities.

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As part of its efforts to further develop business in Japan and deepen client relationships in the region, in March 2003 GMI entered into a joint venture with UFJ Holdings. UFJ Holdings is Japan's fourth-largest financial group. The joint venture focuses on managing problem loans to small and medium-size companies in Japan. Through the third quarter of 2004, Merrill Lynch accounted for this investment using the equity method of accounting. After adoption of Emerging Issues Task Force ("EITF") 02-14 in the fourth quarter of 2004, Merrill Lynch now accounts for this investment under the cost method. Had Merrill Lynch continued to apply the equity method of accounting, other revenues would have been $23 million higher in the fourth quarter of 2004.

GMI's Results of Operations

(dollars in millions)

	2004	2003	2002
Global Markets			
Debt	**$ 5,125**	$ 5,049	$ 3,549
Equity	**3,086**	2,775	2,636
Total Global Markets net revenues	**8,211**	7,824	6,185
Investment banking			
Origination			
Debt	**1,138**	853	631
Equity	**994**	762	821
Strategic Advisory Services	**679**	554	702
Total Investment Banking net revenues	**2,811**	2,169	2,154
Total net revenues	**11,022**	9,993	8,339
Non-interest expenses	**7,153**	6,218	6,872
Pre-tax earnings	**$ 3,869**	$ 3,775	$ 1,467
Pre-tax profit margin	**35.1%**	37.8%	17.6%
Total full-time employees	**12,000**	10,300	10,900

In 2004, GMI's pre-tax earnings were $3.9 billion, 2% higher than in 2003, on net revenues that increased 10%, to $11.0 billion. GMI's 2004 pre-tax profit margin was 35.1%. During 2003 and 2002, respectively, GMI recognized $155 million and $90 million in September 11-related business interruption insurance recoveries for forgone pre-tax profits. These insurance reimbursements were recorded as reductions of non-interest expenses. GMI also recognized net restructuring and other charges of $18 million and $51 million in 2003 and 2002, respectively, due primarily to a change in estimate associated with the 2001 facilities-related restructuring charges and expenses related to additional real estate rationalization. Refer to Note 16 to the Consolidated Financial Statements for further information. Excluding the September 11-related recoveries and net restructuring and other charges from GMI's 2003 results, 2004 pre-tax earnings increased by 6% from 2003.

GMI's increased net revenues and pre-tax earnings in 2004 were due principally to strong revenue growth in investment banking, improved cash equity trading results, and growth in the global principal investments and secured financing business. Geographically, the Pacific Rim contributed strongly to the net revenues and pre-tax earnings increases. Included in GMI's results are net revenues related to equity investments, including dividend income and realized and unrealized gains and losses.

GMI's 2003 net revenues increased 20% from 2002, to $10.0 billion. Excluding the recoveries related to September 11 and net restructuring and other charges from both the 2003 and 2002 results, GMI's 2003 pre-tax earnings increased 155% from 2002. This strong growth in net revenues and pre-tax earnings was due principally to improved debt trading results, driven by strong growth in credit products, principal investments, secured financing and foreign exchange, as well as a solid increase in interest rate trading. The improvement in pre-tax earnings also reflected lower stock option expenses in 2003 resulting from the change in vesting period for options. Increased profitability in Investment Banking was also a factor in the pre-tax earnings improvement. Geographically, Europe and the Pacific Rim contributed strongly to the net revenues and pre-tax earnings increases.

A detailed discussion of GMI's net revenues follows:

Debt Markets

Debt markets net revenues, which include principal transactions and net interest profit, commissions, revenues from consolidated investments, and other revenues, were $5.1 billion in 2004, 2% higher than 2003, driven primarily by increased revenues from the global principal investments and secured financing business, which was a significant area of investment for GMI in 2004. The newly acquired commodities trading business also contributed to the increased net revenues in 2004. These increases were partially offset by lower revenues from credit products and interest rate trading compared to the strong 2003 results. During 2004 and 2003, Debt markets net revenues included $220 million and $185 million, respectively, of net revenues related to equity method investments. Net revenues related to equity method investments are included in other revenues on the Consolidated Statements of Earnings.

In 2003, Debt markets net revenues increased 42% from 2002, to $5.0 billion, reflecting increased trading of credit, interest rate and other products due to a favorable yield curve environment, increased revenues from principal investing and secured financing activities and proprietary positioning. In addition, Debt markets revenues for 2003 included a write-down of $114 million for certain available-for-sale securities considered to be impaired on an other-than-temporary basis.

Equity Markets

Equity markets net revenues, which include commissions, principal transactions and net interest profit, revenues from consolidated investments, and other revenues, increased 11% from 2003 to $3.1 billion. This increase was due principally to higher revenues from the cash equity trading business, as trading volumes increased in 2004. The equity financing and services business, which includes prime brokerage and clearing, also contributed to the growth in equity markets net revenues and reflected the acquisition of a clearing business. Equity markets net revenues for 2004 included $182 million of net revenues related to equity method investments.

In 2003, equity markets net revenues increased 5% from 2002, to $2.8 billion, attributable primarily to increased equity-linked and equity financing and services revenues, and reflected improved equity markets conditions as well as increased demand for derivatives. These increases were partially offset by lower revenues in the cash secondary trading business in 2003. Equity markets net revenues for 2003 and 2002 included $71 million and $117 million of net revenues related to a privately-held equity investment, which was held by a Merrill Lynch broker-dealer and adjusted to fair market value by utilizing a discounted cash flow method. Such revenues were reflected in principal transactions revenues on the Consolidated Statements of Earnings.

Investment Banking

Total investment banking revenues increased 30% in 2004 to $2.8 billion, reflecting a more favorable environment and investments made to better position the origination effort in key industry sectors and countries. Total investment banking revenues in 2003 were essentially unchanged from 2002 levels as increased debt origination revenues were offset by lower equity origination and advisory revenues.

Underwriting

Underwriting revenues represent fees earned from the underwriting of debt and equity and equity-linked securities as well as loan syndication and commitment fees.

Total underwriting revenues were $2.1 billion in 2004, up 32% from 2003, reflecting increased debt and equity underwriting revenues. Debt underwriting revenues increased 33% from 2003, reflecting higher margin transactions and a continued favorable market environment for debt origination with narrowing credit spreads and low interest rates. Equity underwriting revenues increased 30% from 2003 due primarily to an increased volume of IPOs and a significant improvement in the market environment for equity origination. In 2003, total underwriting revenues were $1.6 billion, up 11% from 2002. Debt underwriting revenues increased 35% from 2002 due to a favorable interest rate environment and a narrowing of credit spreads through much of the year. This increase was partially offset by a 7% year-over-year decline in equity and equity-linked underwriting revenues.

Merrill Lynch's underwriting market shares based on transaction value are as follows:

	2004		2003		2002	
	Market Share	**Rank**	Market Share	Rank	Market Share	Rank
Global proceeds						
Equity and equity-linked	**8.6%**	**4**	7.9%	5	10.5%	3
Debt	**6.4**	**6**	7.2	4	7.7	3
Debt and equity	**6.6**	**4**	7.2	4	8.0	2
U.S. proceeds						
Equity and equity-linked	**9.6%**	**4**	9.3%	5	15.8%	3
Debt	**8.4**	**4**	9.0	4	9.8	2
Debt and equity	**8.4**	**4**	9.1	4	10.1	2

Source: Thomson Financial Securities Data statistics based on full credit to book managers.

Strategic Advisory Services

Strategic advisory services revenues, which include merger and acquisition and other advisory fees, increased 23% in 2004, to $679 million, as global completed mergers and acquisitions volume increased substantially and Merrill Lynch's market share of completed transactions increased. In 2003, strategic advisory services revenues decreased 21% from 2002, to $554 million, as completed mergers and acquisition volume declined globally and Merrill Lynch's market share of completed transactions declined.

Merrill Lynch's merger and acquisition market share information based on transaction values is as follows:

	2004		2003		2002	
	Market Share	**Rank**	Market Share	Rank	Market Share	Rank
Announced transactions						
Global	**18.9%**	**5**	15.1%	5	14.0%	6
U.S.	**16.2**	**6**	16.0	7	13.4	8
Completed transactions						
Global	**20.9%**	**4**	16.6%	5	23.9%	3
U.S.	**21.6**	**4**	17.8	4	32.5	4

Source: Thomson Financial Securities Data statistics based on full credit to both target and acquiring companies' advisors.

Global Private Client

GPC provides a full range of advice-based wealth management products and services to assist clients in managing all aspects of their financial profile through the Total Merrill[SM] platform. GPC's offerings include commission and fee-based investment accounts, credit products, banking services, cash management and credit cards, trust and generational planning, consumer and small business lending, retirement services and insurance products. GPC serves individual investors and small- and middle-market corporations and institutions through approximately 14,100 FAs in approximately 630 offices around the world as of year-end 2004.

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To align asset account structure with each client's specific investment requirements and goals, GPC offers a choice of traditional commission-based investment accounts, a variety of asset-priced investment services and self-directed online accounts. Assets in GPC accounts totaled $1.4 trillion at December 31, 2004, a 7% increase from December 26, 2003 due primarily to market appreciation and, to a lesser extent, net new money.

The integration of the U.S. and non-U.S. private client businesses as well as a continued emphasis on segmentation, revenue diversification and operating leverage enabled GPC globally to achieve record pre-tax earnings and pre-tax profit margin in 2004, even as market conditions and investor sentiment were mixed. Outside the United States, GPC achieved its second consecutive year of strong profitability and posted pre-tax margins comparable to its U.S. business.

GPC also continued to make progress in diversifying revenues by increasing fee-based and recurring revenue sources. Fee-based revenue and net interest profit as a percentage of total revenue rose to 62% despite a year-over-year increase in transactional and origination revenues. GPC fee-based revenues from asset-priced and managed account products, including Merrill Lynch Consults® and Unlimited Advantage℠, rose 19% in 2004. New products launched in 2004 included the Merrill+℠ VISA card and the Loan Management Account℠, both of which generated incremental revenues. In addition, GPC earns revenue from providing small business services, including lending and origination of mortgages.

GPC has established itself as a market leader in terms of earnings, productivity, service, client focus and segmentation. GPC increased its FA force by 5%, to 14,100 in 2004. Investment in training and retention of FAs remains a priority for GPC.

Rollout of the Wealth Management Technology Platform ("WMTP") commenced in 2004 and continues in 2005, targeting a full deployment to more than 23,000 users, including FAs, Client Associates, the Financial Advisory Center and call centers. WMTP is a fully integrated workstation that incorporates a comprehensive suite of market data and financial planning tools. This deployment resulted in higher infrastructure expense in 2004 and is expected to similarly impact future periods.

GPC's Results of Operations

(dollars in millions)

	2004	2003	2002
Fee-based revenues	**$ 4,800**	$ 4,046	$ 4,244
Transactional and origination revenues	**3,270**	3,030	2,922
Net interest profit	**1,324**	1,357	1,332
Other revenues	**437**	460	289
Total net revenues	**9,831**	8,893	8,787
Non-interest expenses	**7,958**	7,367	7,721
Pre-tax earnings	**$ 1,873**	$ 1,526	$ 1,066
Pre-tax profit margin	**19.1%**	17.2%	12.1%
Total full-time employees	**31,000**	30,200	31,900
Total Financial Advisors	**14,100**	13,500	14,000

GPC's 2004 pre-tax earnings were $1.9 billion, up 23% compared to 2003, on net revenues that increased 11% to $9.8 billion. GPC's 2004 pre-tax profit margin was 19.1%, up nearly two percentage points from 17.2% in 2003, driven by increased revenues and continued expense discipline. Higher asset values and annuitized asset flows have driven a 19% increase in fee-based revenues and a more active market environment has led to growth in GPC's transactional and origination revenues.

In 2003, GPC's pre-tax earnings increased 43% from 2002 to $1.5 billion, on net revenues that increased 1% to $8.9 billion. GPC's pre-tax profit margin was 17.2% in 2003, up from 12.1% in 2002, reflecting substantially improved performance and continued operating discipline both inside and outside the United States, and a 5% reduction in non-interest expenses. Non-interest expenses benefited from a 9% decrease in non-compensation expenses and lower stock option expenses resulting from the change in vesting period for options. GPC's non-interest expenses in 2003 and 2002 included reductions of $15 million and $25 million, respectively, related to September 11-related net business interruption recoveries. Net restructuring credits of $2 million and $66 million were recorded in 2003 and 2002, respectively. Refer to Note 16 to the Consolidated Financial Statements for further information.

Fee-based Revenues

Fee-based revenues are comprised of asset management and portfolio service fees, including portfolio fees from fee-based accounts such as Unlimited Advantage℠ and Merrill Lynch Consults®, as well as fees from taxable and tax-exempt money market funds. Also included in fee-based revenues are servicing fees related to these accounts, commissions related to distribution fees on mutual fund sales and certain other account-related fees.

In 2004, fee-based revenues totaled $4.8 billion, up 19% from 2003, reflecting market-driven increases in asset levels. Fee-based revenues in 2004 reflected higher portfolio service fees, a large portion of which are calculated on beginning-of-period asset values, and increased distribution fees related to mutual fund sales. In 2003, fee-based revenues totaled $4.0 billion, down 5% from $4.2 billion recorded in 2002 due primarily to lower portfolio service fees resulting from market-driven declines in asset levels.

The value of assets in GPC accounts and assets in asset-priced accounts at year-end 2004, 2003, and 2002 is as follows:

(dollars in billions)

	2004	2003	2002
Assets in GPC accounts			
U.S.	**$ 1,244**	$ 1,164	$ 1,021
Non-U.S.	**115**	103	89
Total	**$ 1,359**	$ 1,267	$ 1,110
Assets in asset-priced accounts	**$ 257**	$ 226	$ 188
As a percentage of total assets in GPC accounts	**19%**	18%	17%

Transactional and Origination Revenues

Transactional and origination revenues include certain commissions revenues, such as those that arise from agency transactions in listed and OTC equity securities, insurance products, and options. Also included are principal transactions and new issue revenues, which primarily represent bid-offer revenues in OTC equity securities, government bonds and municipal securities, as well as selling concessions on underwriting of debt and equity products.

In 2004, transactional and origination revenues totaled $3.3 billion, up 8% from 2003, primarily reflecting increased transactions resulting from more active markets. Increased commissions revenues on equity securities and insurance products and higher equity new issue revenues were the largest contributors. Transactional and origination revenues for 2003 were $3.0 billion, 4% higher than in 2002 due primarily to increased trading and new issue volume in a more favorable market environment.

Net Interest Profit

Net interest profit for GPC includes GPC's allocation of the interest spread earned in Merrill Lynch's banks for deposits as well as interest earned on margin and other loans.

GPC's net interest profit was $1.3 billion in 2004, down 2% from 2003. Higher interest revenue resulting from increases in short-term interest rates was more than offset by increased credit provisions, including provisions of approximately $180 million associated with secured business loans extended to small- and middle-market businesses, which were $123 million higher than in 2003. These loans are primarily in the portfolio of Merrill Lynch Business Financial Services, Inc., a subsidiary of Merrill Lynch Bank USA. At December 31, 2004, this $5.5 billion portfolio included $144 million of non-accrual loans, net of applicable credit reserves. The additional credit provisions in 2004 were due primarily to a decline in credit quality in a small portion of this $5.5 billion portfolio. The underwriting and portfolio management practices related to this portfolio were strengthened in the second quarter of 2004, and an enhanced process was put in place to review the credit quality of this portfolio on an ongoing basis. Based on management's evaluation of the credit quality of the portfolio at December 31, 2004, the reserve for credit losses is deemed adequate. Future credit provisions for this portfolio will be taken as necessary as part of the ongoing portfolio management process. The level of such provisions declined during the fourth quarter of 2004, as compared to second and third quarter 2004 levels.

Other Revenues

Other revenues totaled $437 million in 2004, down 5% from 2003, principally reflecting lower mortgage lending-related revenue. Other revenues were $460 million in 2003 compared to $289 million in 2002, reflecting increased realized gains related to the sales of residential mortgages, in a favorable mortgage origination environment.

Merrill Lynch Investment Managers

Merrill Lynch is among the world's largest asset managers with $501 billion of assets under management at the end of 2004, with $496 billion managed by MLIM and $5 billion managed by GPC. MLIM offers a wide array of taxable and tax-exempt fixed-income, equity and balanced mutual funds and segregated accounts to a diverse global clientele, as well as a wide assortment of index-based equity and alternative investment products. Its clients include institutions, high-net-worth individuals and retail investors. MLIM-branded products are distributed through third-party distribution networks and the GPC distribution channel, and certain products are distributed through GMI. MLIM maintains a significant sales and marketing presence both inside and outside the United States that is focused on acquiring and maintaining institutional investment management relationships by marketing its services to institutional investors both directly and through pension consultants, and establishing third-party distribution relationships.

In 2004, major global equity markets had positive returns despite continued concerns about rising interest rates, oil prices and geopolitical uncertainties. The weakness of the U.S. dollar further enhanced gains for U.S. investors investing in overseas markets. This rise in equity indices, which positively impacted MLIM's revenues, combined with a continued disciplined control over expenses, led to a ten-percentage-point increase in MLIM's pre-tax profit margin in 2004 to 29.1%. Over the last two years, sales in MLIM's non-proprietary retail and U.S. long-term institutional channels were solid. MLIM has been successful in distributing its retail mutual funds through third-parties in Europe and Asia. Open-ended mutual fund sales continued to be under pressure within the proprietary retail channel; however, substantial growth in MLIM's Consults®, Wealth℠, and Funds Diversified Portfolios℠ products have been a large contributor to MLIM's results. MLIM's proprietary channel mutual fund redemption rate in 2004 was the lowest it had been in seven years. Overall, the share of net revenue contributed by MLIM's growth segments has grown over the past few years and this trend is expected to continue.

MLIM's Results of Operations

(dollars in millions)

	2004	2003	2002
Asset management fees	**$ 1,413**	$ 1,234	$ 1,320
Commissions	**115**	131	179
Other revenues	**53**	(6)	12
Total net revenues	**1,581**	1,359	1,511
Non-interest expenses	**1,121**	1,099	1,293
Pre-tax earnings	**$ 460**	$ 260	$ 218
Pre-tax profit margin	**29.1%**	19.1%	14.4%
Total full-time employees	**2,500**	2,600	2,800

Pre-tax earnings for MLIM were $460 million in 2004, up 77% from 2003. Net revenues grew 16%, to $1.6 billion, due primarily to increased asset values related to the rise in equity indices, as well as the positive impact of currency translation. As short-term

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interest rates increased, investors moved assets out of retail money market funds to higher-yielding products. MLIM's pre-tax profit margin was 29.1% in 2004, up from 19.1% in 2003, reflecting continued expense discipline, as non-interest expenses increased only 2% from 2003, to $1.1 billion. MLIM continued to demonstrate strong relative investment performance results with more than 70% of global assets under management above benchmark or category median for the 1-, 3-, and 5-year periods ended December 2004.

Pre-tax earnings for MLIM were $260 million in 2003, up 19% from 2002 as net revenues decreased 10% to $1.4 billion. This decrease was more than offset by lower non-interest expenses, as expense discipline, lower litigation expenses and lower stock option expenses, resulting from the change in vesting period for options, led to a decline in non-interest expenses of 15% from 2002, to $1.1 billion. MLIM recognized restructuring and other charges of $4 million and $23 million in 2003 and 2002, respectively. Refer to Note 16 to the Consolidated Financial Statements for further information.

Asset Management Fees

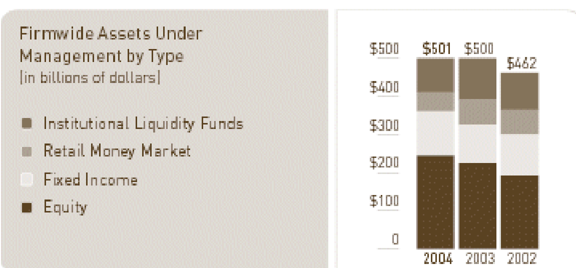
Asset management fees primarily consist of fees earned from the management and administration of funds and separately managed accounts. In some cases, funds and separately managed accounts also generate performance fees. Asset management fees were $1.4 billion, up 15% from 2003, due primarily to higher average asset values and an increased proportion of higher-yielding assets. Asset management fees in 2003 declined 7% from 2002, to $1.2 billion, due to market-driven declines in the value of equity assets under management as well as the shift of assets by clients from higher-yielding equity funds to lower-yielding fixed income and money market products.

Firmwide assets under management for each of the last three years were comprised of the following:

(dollars in billions)

	2004	2003	2002
Assets Under Management			
Retail	$ **218**	$ 207	$ 189
Institutional	**240**	253	235
Retail Separate Accounts[1]	**43**	40	38
Total	$ **501**	$ 500	$ 462

1 Represents segregated portfolios for individuals, small corporations, and institutions and includes $5 billion of accounts managed by GPC.



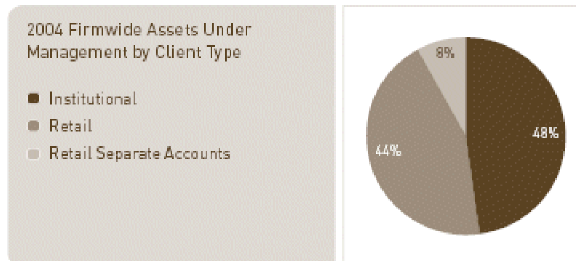
At the end of 2004, firmwide assets under management totaled $501 billion, essentially unchanged from the end of 2003, as market-driven appreciation and the positive impact of foreign exchange were offset by net new money outflows of $30 billion. The net new money outflows were principally in short-term institutional liquidity products and retail money market funds, as investors moved assets out of retail money market funds to higher-yielding products as short-term interest rates increased.

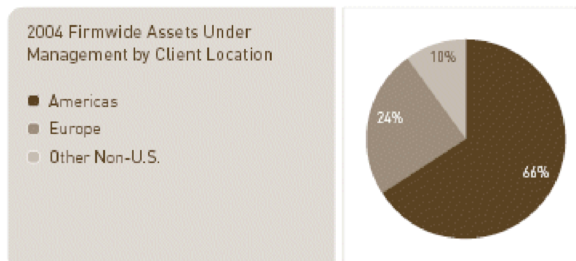
An analysis of changes in firmwide assets under management from year-end 2003 to year-end 2004 is as follows:

(dollars in billions)

		Net Changes Due To			
	Year-end 2003	New Money	Asset Appreciation	Other[1]	**Year-end 2004**
Assets Under Management	$ 500	$ (30)	$ 23	$ 8	$ **501**

1 Includes reinvested dividends, the impact of foreign exchange movements and other changes.





Commissions

Commissions for MLIM principally consist of distribution fees and contingent deferred sales charges ("CDSC") related to mutual funds. The distribution fees represent revenues earned for promoting and distributing mutual funds ("12b-1 fees"). The CDSC represents fees earned when a shareholder redeems shares prior to the end of the required holding period. Commissions revenues declined to $115 million in 2004, down 12% from a year ago. In 2003, commissions revenue decreased 27% from the previous year to $131 million. These reductions reflect the declining popularity of rear-load shares.

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Other Revenues

Other revenues, which primarily include net interest profit and revenues from consolidated investments, totaled $53 million and $(6) million in 2004 and 2003, respectively. Other revenues in 2003 included investment losses.

CONSOLIDATED BALANCE SHEETS

Overview

Management continually monitors and evaluates the size and composition of the Consolidated Balance Sheets. The following table summarizes the year-end and average balance sheets for 2004 and 2003:

(dollars in billions)

	Dec. 31, 2004	**2004 Average[1]**	Dec. 26, 2003	2003 Average[1]
Assets				
Trading-Related				
Securities financing assets	**$ 185.3**	**$ 181.1**	$ 126.2	$ 145.0
Trading assets	**182.0**	**163.9**	134.2	135.9
Other trading-related receivables	**59.3**	**53.0**	46.5	50.5
	426.6	**398.0**	306.9	331.4
Non-Trading-Related				
Cash	**44.3**	**28.4**	25.3	24.6
Investment securities	**77.9**	**82.5**	74.8	78.5
Loans, notes, and mortgages	**53.3**	**54.8**	51.0	44.8
Other non-trading assets	**46.0**	**43.3**	38.1	41.4
	221.5	**209.0**	189.2	189.3
Total assets	**$ 648.1**	**$ 607.0**	$ 496.1	$ 520.7
Liabilities				
Trading-Related				
Securities financing liabilities	**$ 188.9**	**$ 186.5**	$ 116.2	$ 137.7
Trading liabilities	**115.2**	**103.4**	89.3	93.7
Other trading-related payables	**62.3**	**58.2**	49.3	55.5
	366.4	**348.1**	254.8	286.9
Non-Trading-Related				
Commercial paper and other short-term borrowings	**4.0**	**5.8**	5.0	4.9
Deposits	**79.7**	**77.8**	79.5	81.2
Long-term borrowings	**116.5**	**100.4**	83.3	80.3
Long-term debt issued to TOPrS[SM] partnerships	**3.1**	**3.1**	3.2	3.2
Other non-trading liabilities	**47.0**	**41.8**	41.4	38.0
	250.3	**228.9**	212.4	207.6
Total liabilities	**616.7**	**577.0**	467.2	494.5
Total stockholders' equity	**31.4**	**30.0**	28.9	26.2
Total liabilities and stockholders' equity	**$ 648.1**	**$ 607.0**	$ 496.1	$ 520.7

1 Averages represent management's daily balance sheet estimates, which may not fully reflect netting and other adjustments included in period-end balances. Balances for certain assets and liabilities are not revised on a daily basis.

The discussion that follows analyzes the changes in year-end financial statement balances and yearly average balances of the major asset and liability categories.

Trading-Related Assets and Liabilities

Trading-related balances primarily consist of securities financing transactions, trading assets and liabilities, and certain interest receivable/payable balances that result from trading activities. At December 31, 2004, total trading-related assets and liabilities were $426.6 billion and $366.4 billion, respectively. Average trading-related assets for 2004 were $398.0 billion and average trading-related liabilities were $348.1 billion.

Increases in trading-related assets in 2004 primarily reflect higher levels of securities financing assets, which includes increased client matched-book activity. Trading assets, particularly non-U.S. governments and agencies, corporate debt and preferred stock and mortgages, mortgage-backed and asset-backed securities, were also higher. The increase in trading assets results from investments made to grow and diversify revenues across and within asset classes. Trading assets also grew due to increased proprietary and client trading opportunities during the year, and are consistent with Merrill Lynch's strategy to be responsive to such opportunities when they arise, provided that the expected return is commensurate with the inherent risk. The increase in trading-related assets in 2004 is also attributable in part to the rally in U.S. equities and the decline in the valuation of the U.S. dollar during the year, which resulted in higher values for non-U.S. dollar denominated trading assets. During 2004, Merrill Lynch continued to expand its prime brokerage businesses, which resulted in increases in securities financing transactions and other trading-related receivables.

Although trading-related balances comprise a significant portion of the Consolidated Balance Sheets, the magnitude of these balances does not necessarily correlate with the risk profile assumed by Merrill Lynch. The market and credit risks associated with trading-related balances are mitigated through various hedging strategies, as discussed in the following section. See Note 5 to the Consolidated Financial Statements for descriptions of market and credit risks.

Merrill Lynch reduces a significant portion of the credit risk associated with trading-related assets by requiring counterparties to post cash or securities as collateral in accordance with collateral maintenance policies. Conversely, Merrill Lynch may be required to post cash or securities to counterparties in accordance with similar policies.

Securities Financing Transactions

Securities financing transactions include resale and repurchase agreements, securities borrowed and loaned transactions, securities received as collateral, and obligations to return securities received as collateral. Repurchase agreements and, to a lesser extent, securities loaned transactions are used to fund a significant portion of trading assets. Likewise, Merrill Lynch uses resale agreements and securities borrowed transactions to obtain the securities needed for delivery on short positions. These transactions are typically short-term in nature, with a significant portion entered into on an overnight or open basis.

Merrill Lynch also enters into these transactions to meet clients' needs, which are known as matched-book transactions. These matched-book repurchase and resale agreements or securities borrowed and loaned transactions are entered into with different clients using the same underlying securities, generating a spread between the interest revenue on the resale agreements or securities borrowed transactions and the interest expense on the repurchase agreements or securities loaned transactions. Exposures on these transactions are limited by collateral maintenance policies and the typically short-term nature of the transactions.

Securities financing assets at 2004 year-end were $185.3 billion, up 47% from 2003 year-end, and securities financing liabilities were $188.9 billion at 2004 year-end, up 63% from year-end 2003. Average securities financing assets in 2004 were $181.1 billion, up 25% from the 2003 average. Average securities financing liabilities in 2004 were $186.5 billion, up 35% from the 2003 average.

Trading Assets and Liabilities

Trading inventory principally represents securities purchased ("long positions"), securities sold but not yet purchased ("short positions"), and the fair value of derivative contracts. See Note 1 to the Consolidated Financial Statements for related accounting policies. These positions are primarily the result of market-making, hedging, and proprietary activities.

Merrill Lynch acts as a market maker in a wide range of securities, resulting in a significant amount of trading inventory that is required to facilitate client transaction flow. Merrill Lynch also maintains proprietary trading inventory in seeking to profit from existing or projected market opportunities.

Merrill Lynch uses both "cash instruments" (e.g., securities) and derivatives to manage trading inventory market risks. As a result of these hedging techniques, a significant portion of trading assets and liabilities represents hedges of other trading positions. Long positions in U.S. Government securities, for example, may be used to hedge short positions in interest rate futures contracts. These hedging techniques, which are generally initiated at the trading unit level, are supplemented by corporate risk management policies and procedures (see the Risk Management section for a description of risk management policies and procedures).

Trading assets at 2004 year-end were $182.0 billion, up 36% from 2003 year-end, and trading liabilities at 2004 year-end were $115.2 billion, up 29% from 2003 year-end. Average trading assets in 2004 were $163.9 billion, up 21% from the 2003 average. Average trading liabilities in 2004 were $103.4 billion, up 10% from the 2003 average.

Other Trading-Related Receivables and Payables

Securities trading may lead to various customer or broker-dealer receivable and payable balances. Broker-dealer receivable and payable balances may also result from recording trading inventory on a trade date basis. Certain receivable and payable balances also arise when customers or broker-dealers fail to pay for securities purchased or fail to deliver securities sold, respectively. These receivables are generally fully collateralized by the securities that the customer or broker-dealer purchased but did not receive. Customer receivables also include certain commodities transactions and margin loans collateralized by customer-owned securities held by Merrill Lynch. Collateral policies significantly limit Merrill Lynch's credit exposure to customers and broker-dealers. Merrill Lynch, in accordance with regulatory requirements, will sell securities that have not been paid for, or purchase securities sold but not delivered, after a relatively short period of time, or will require additional margin collateral, as necessary. These measures reduce market risk exposure related to these balances.

Interest receivable and payable balances related to trading inventory are principally short-term in nature. Interest balances for resale and repurchase agreements, securities borrowed and loaned transactions, and customer margin loans are considered when determining the collateral requirements related to these transactions.

Other trading-related receivables at 2004 year-end were $59.3 billion, up 28% from 2003 year-end, and other trading-related payables were $62.3 billion at 2004 year-end, up 26% from 2003 year-end. Average other trading-related receivables in 2004 were $53.0 billion, up 5% from the 2003 average. Average other trading-related payables were $58.2 billion in 2004, up 5% from the 2003 average.

Non-Trading-Related Assets and Liabilities

Non-trading-related balances primarily consist of cash, investment securities, loans, notes, and mortgages, short and long-term borrowings and other non-trading assets and liabilities. At December 31, 2004, total non-trading-related assets and liabilities were $221.5 billion and $250.3 billion, respectively. Average non-trading-related assets for 2004 were $209.0 billion and average non-trading-related liabilities were $228.9 billion.

Cash

Cash includes cash, cash equivalents and securities segregated for regulatory purposes or deposited with clearing organizations. Cash at 2004 year-end was $44.3 billion, up 75% from 2003 year-end. Average cash in 2004 was $28.4 billion, up 15% from the 2003 average. These increases principally result from higher levels of interest-earning cash equivalents and cash segregated for regulatory purposes.

Investment Securities

Investment securities consist of debt securities, including those held for liquidity and collateral management purposes, and equity securities. Investments of insurance subsidiaries, primarily debt securities, are funded by policyholder liabilities. Other investments include securities acquired in connection with private equity investments, including investments that economically hedge employee deferred compensation liabilities. Investment securities were $77.9 billion in 2004, up 4% from 2003 year-end. Average investment securities were $82.5 billion in 2004, up 5% from the 2003 average. See Note 4 to the Consolidated Financial Statements for further information.

Loans, Notes, and Mortgages

Merrill Lynch's portfolio of loans, notes, and mortgages consists of residential mortgages, syndicated commercial mortgages, asset-based loans, small business loans and other loans to individuals, corporations, or other businesses. Merrill Lynch maintains collateral to mitigate risk of loss in the event of default on some of these extensions of credit in the form of securities, liens on real estate, perfected security interests in other assets of the borrower or other loan parties, and guarantees. Loans, notes, and mortgages were $53.3 billion at 2004 year-end, up 4% from 2003 year-end. Average loans, notes, and mortgages in 2004 were $54.8 billion, up 22% from the 2003 average. These amounts do not include loans held for trading purposes, which are included in trading assets and trading liabilities. Merrill Lynch periodically sells residential mortgage loans originated by GPC into the secondary market. See Note 7 to the Consolidated Financial Statements for additional information.

Short- and Long-Term Borrowings

Portions of trading and non-trading assets are funded through deposits, long-term borrowings, and commercial paper (see the Capital and Funding section for further information on funding sources).

Commercial paper and other short-term borrowings were $4.0 billion at 2004 year-end, down 20% from 2003 year-end. The average commercial paper and other short-term borrowings balance in 2004 was $5.8 billion, up 18% from the 2003 average. Deposits were $79.7 billion at 2004 year-end, essentially unchanged from 2003 year-end. Average deposits in 2004 were $77.8 billion, down 4% from the 2003 average. Long-term borrowings, including long-term debt issued to TOPrS[SM] partnerships, were $119.6 billion at year-end 2004, up 38% from 2003 year-end. Average long-term borrowings, including long-term debt issued to TOPrS[SM] partnerships, in 2004 were $103.5 billion, up 24% from the 2003 average. For capital management purposes, Merrill Lynch view TOPrS[SM] as a component of equity capital although the long-term debt issued to TOPrS[SM] partnerships is recorded as a liability for accounting purposes.

Major components of the changes in long-term borrowings, including long-term debt issued to TOPrS[SM] partnerships, for 2004 and 2003 are as follows:

(dollars in billions)

	2004	2003
Beginning of year	**$ 86.5**	$ 81.7
Issuances	**48.9**	29.1
Maturities	**(22.8)**	(26.5)
Other[1]	**7.0**	2.2
End of year[2]	**$ 119.6**	$ 86.5

1 Primarily foreign exchange movements and the impact of consolidated investments.

2 See Note 8 to the Consolidated Financial Statements for the long-term borrowings maturity schedule.

Total borrowings outstanding at year-end 2004 and 2003 were issued in the following currencies:

(USD equivalent in millions)

	2004		2003	
USD	**$ 77,039**	**62%**	$65,319	71%
EUR	**22,446**	**18**	12,072	13
JPY	**11,542**	**9**	8,891	10
GBP	**6,970**	**6**	1,781	2
CAD	**1,717**	**1**	1,288	2
AUD	**1,906**	**2**	1,235	1
Other	**1,935**	**2**	916	1
Total	**$123,555**	**100%**	$91,502	100%

Other Non-Trading Assets and Liabilities

Other non-trading assets, which include separate accounts assets, equipment and facilities, goodwill and other intangible assets, other non-interest receivables ($12.5 billion in 2004 and $9.0 billion in 2003) and other assets, were $46.0 billion at 2004 year-end, up 21% from 2003 year-end. Average other non-trading assets in 2004 were $43.3 billion, up 5% from the 2003 average. Separate accounts assets are related to Merrill Lynch's insurance businesses and represent segregated funds that are invested for certain policy-holders and other customers. The assets of each account are legally segregated and are generally not subject to claims that arise out of any other business of Merrill Lynch.

Other non-trading liabilities, which include liabilities of insurance subsidiaries, separate accounts liabilities, and other non-interest payables ($25.2 billion in 2004 and $21.1 billion in 2003), were $47.0 billion at 2004 year-end, up 14% from 2003 year-end. Average other non-trading liabilities were $41.8 billion in 2004, up 10% from the 2003 average. Separate accounts liabilities represent Merrill Lynch's obligations to its customers related to separate accounts assets.

Stockholders' Equity

Stockholders' equity at December 31, 2004 was $31.4 billion, up 9% from 2003 year-end. This increase primarily resulted from net earnings and the net effect of employee stock transactions, partially offset by common stock repurchases and dividends.

At December 31, 2004, total common shares outstanding, excluding shares exchangeable into common stock, were 928.0 million, 2% lower than the 945.9 million shares outstanding at December 26, 2003. The decrease was attributable principally to common stock repurchases during 2004.

Total shares exchangeable into common stock at 2004 year-end issued in connection with the 1998 merger with Midland Walwyn Inc., were 2.8 million, compared with 2.9 million at 2003 year-end. For additional information, see Note 10 to the Consolidated Financial Statements.

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OFF BALANCE SHEET ARRANGEMENTS

As a part of its normal operations, Merrill Lynch enters into various off balance sheet arrangements that may require future payments. The table below outlines the significant off balance sheet arrangements, as well as the future expiration as of December 31, 2004:

(dollars in millions)

		Expiration			
	Total	Less than 1 Year	1-3 Years	3+-5 Years	Over 5 Years
Liquidity facilities with SPEs[1]	$17,988	$ 17,354	$ 634	$ –	$ –
Liquidity and default facilities with SPEs[1]	3,289	2,481	563	–	245
Residual value guarantees[2]	1,078	50	3	487	538
Standby letters of credit and other guarantees[3,4,5]	3,091	1,185	399	133	1,374

1 Amounts relate primarily to facilities provided to municipal bond securitization SPEs.

2 Includes residual value guarantees associated with the Hopewell campus and aircraft leases of $322 million.

3 Includes $570 million of reimbursement agreements with the Mortgage 100SM program.

4 Includes guarantees related to principal-protected mutual funds.

5 Includes certain indemnifications related to foreign tax planning strategies.

Merrill Lynch provides guarantees to Special Purpose Entities ("SPEs") in the form of liquidity facilities, credit default protection and residual value guarantees for equipment leasing entities. The liquidity facilities and credit default protection relate primarily to municipal bond securitization SPEs. Merrill Lynch also acts as liquidity provider to municipal bond securitization SPEs. To protect against declines in value of the assets held by the SPEs for which Merrill Lynch provides either liquidity facilities or default protection, Merrill Lynch economically hedges its exposure through derivative positions that principally offset the risk of loss of these guarantees. The residual value guarantees are related to leasing SPEs where either Merrill Lynch or a third-party is the lessee and reimbursement agreements issued in conjunction with sales of loans originated under its Mortgage 100SM program. Merrill Lynch also makes guarantees to counterparties in the form of standby letters of credit and, at December 31, 2004, held $567 million of marketable securities as collateral to secure these guarantees. In conjunction with certain principal-protected mutual funds and managed mutual funds, Merrill Lynch guarantees the return of the initial principal investment at the termination date of the fund. Merrill Lynch also provides indemnifications related to the U.S. tax treatment of certain foreign tax planning transactions. The maximum exposure to loss associated with these transactions is $157 million; however, Merrill Lynch believes that the likelihood of loss with respect to these arrangements is remote.

The amounts in the preceding table do not necessarily represent expected future cash flow requirements. Refer to Note 6 and Note 11 to the Consolidated Financial Statements for a further discussion of these arrangements.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

Contractual Obligations

In the normal course of business, Merrill Lynch enters into various contractual obligations that may require future cash payments. The accompanying table summarizes Merrill Lynch's contractual obligations by remaining maturity at December 31, 2004. Excluded from this table are obligations recorded on the Consolidated Balance Sheet that are generally short-term in nature, including securities financing transactions, trading liabilities, deposits, commercial paper and other short-term borrowings and other payables. Also excluded are obligations that are related to our insurance subsidiaries, including liabilities of insurance subsidiaries, which are subject to significant variability and separate accounts liabilities, which fund separate accounts assets.

(dollars in millions)

		Expiration			
	Total	Less than 1 Year	1-3 Years	3+-5 Years	Over 5 Years
Long-term borrowings[1]	$119,576	$ 20,163	$30,173	$32,931	$36,309
Operating lease commitments	3,667	547	1,028	845	1,247
Purchasing and other commitments	3,808	2,805	498	371	134

1 Includes long-term debt issued to TOPrSSM partnerships.

Merrill Lynch issues U.S. and non-U.S. dollar-denominated long-term borrowings with both variable and fixed interest rates as part of its overall funding strategy. For further information on funding and long-term borrowings, see the Capital and Funding section and Note 8 to the Consolidated Financial Statements. In the normal course of business, Merrill Lynch enters into various noncancellable long-term operating lease agreements, various purchasing commitments, commitments to extend credit and other commitments. For detailed information regarding these commitments, see Note 11 to the Consolidated Financial Statements.

Commitments

At December 31, 2004, Merrill Lynch commitments had the following expirations:

(dollars in millions)

		Expiration			
	Total	Less than 1 Year	1-3 Years	3+-5 Years	Over 5 Years
Commitments to extend credit	$51,839	$ 24,178	$ 9,700	$12,809	$ 5,152
Commitments to enter into resale agreements	2,415	2,415	–	–	–

In April 2004, Merrill Lynch entered into a commitment to extend a €5.3 billion loan to Sanofi-Synthelabo, a large French

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pharmaceutical company, in connection with its acquisition of Aventis. This commitment replaced the previously reported €4.0 billion commitment entered into in January 2004. As of December 31, 2004, Merrill Lynch had syndicated out €4.8 billion of this commitment.

CAPITAL AND FUNDING

The primary objectives of Merrill Lynch's capital structure and funding policies are to support the successful execution of Merrill Lynch's business strategies while ensuring:

- sufficient equity capital to support existing businesses and future growth plans and
- liquidity across market cycles and through periods of financial stress.

Capital

At December 31, 2004, equity capital, as defined by Merrill Lynch, was comprised of $30.7 billion of common equity, $630 million of preferred stock, and $2.5 billion of long-term debt issued to TOPrS[SM] partnerships (net of related investments). Merrill Lynch regularly reviews overall equity capital needs to ensure that its equity capital base can support the estimated risks and needs of its businesses, the regulatory and legal capital requirements of its subsidiaries, and requirements pursuant to the new CSE rules. Merrill Lynch determines the appropriateness of its equity capital composition, taking into account that its preferred stock and TOPrS[SM] are perpetual. In the event that capital is generated beyond estimated needs, Merrill Lynch returns capital to shareholders through share repurchases and dividends.

To determine equity capital needs to cover potential losses arising from market and credit risks, Merrill Lynch uses statistically based risk models, developed in conjunction with its risk management practices. Models and other tools used to estimate risks are continually modified as risk analytics are refined. The assumptions used in analytical models are reviewed regularly to ensure that they provide a reasonable and conservative assessment of risks to Merrill Lynch across a stress market cycle.

Merrill Lynch also assesses the need for equity capital to support business risks that may not be adequately measured through these risk models, such as legal and other operational risks. When deemed prudent or when required by regulations, Merrill Lynch also purchases insurance to protect against some risks. Merrill Lynch also considers equity capital that may be required to support normal business growth and strategic initiatives.

Merrill Lynch's capital adequacy planning also takes into account the regulatory environment in which the company operates. Many regulated businesses require various minimum levels of capital. See Note 15 to the Consolidated Financial Statements for further information. Merrill Lynch's broker-dealer, banking, and insurance activities are subject to regulatory requirements that may restrict the free flow of funds to affiliates. Regulatory approval may be required for paying dividends in excess of certain established levels and making affiliated investments.

Merrill Lynch continued to grow its equity capital base in 2004 primarily through net earnings and the net effect of employee stock transactions, partially offset by common stock repurchases and dividends. Equity capital of $33.9 billion at December 31, 2004 was 8% higher than at the beginning of the year.

In 2004, Merrill Lynch authorized two share repurchase programs to provide greater flexibility to return capital to shareholders. For the year ended December 31, 2004, Merrill Lynch repurchased a cumulative total of 54.0 million shares of common stock at a cost of $2,968 million, completing the $2 billion repurchase authorized in February 2004 and utilizing $968 million of the additional $2 billion repurchase authorized in July 2004.

On June 30, 2004, Merrill Lynch redeemed its Yen TOPrS [SM] debentures, which were due on June 30, 2019, pursuant to the optional redemption provisions stated in the terms and conditions of the debentures. Such redemption resulted in a cash payment of $107.1 million. No gain or loss was recognized on the transaction. On November 1, 2004, Merrill Lynch issued $630 million of floating rate, non-cumulative, perpetual preferred stock. On December 30, 2004, Merrill Lynch redeemed all of its outstanding shares of fixed rate, cumulative, perpetual preferred stock totaling $425 million. No gain or loss was recognized on the transaction. Refer to Note 10 to the Consolidated Financial Statements for additional information.

Major components of the changes in equity capital for 2004 and 2003 are as follows:

(dollars in millions)

	2004	2003
Beginning of year	**$31,523**	$26,707
Net earnings	**4,436**	3,836
Issuance of preferred stock, net of redemptions	**205**	–
Common and preferred stock dividends	**(643)**	(635)
Common stock repurchases	**(2,968)**	–
Net effect of employee stock transactions and other[1]	**1,361**	1,615
End of year	**$33,914**	$31,523

1 Includes effect of Accumulated other comprehensive loss and other items.

Balance Sheet Leverage

Asset-to-equity leverage ratios are commonly used to assess a company's capital adequacy. When assessing its capital adequacy, Merrill Lynch considers the risk profile of assets, the impact of hedging, off balance sheet exposures, operational risk and other considerations. As leverage ratios are not risk sensitive, Merrill Lynch does not rely on them as a measure of capital adequacy. Merrill Lynch believes that a leverage ratio adjusted to exclude securities financing related assets considered to have a low risk profile provides a more meaningful measure of balance sheet leverage in the securities industry than an unadjusted ratio.

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The following table provides calculations of Merrill Lynch's leverage ratios at December 31, 2004 and December 26, 2003:

(dollars in millions)

	December 31, 2004	December 26, 2003
Total assets	**$ 648,059**	$ 496,143
Less:		
Receivables under resale agreements	**78,853**	61,006
Receivables under securities borrowed transactions	**94,498**	56,072
Securities received as collateral	**11,903**	9,156
Adjusted assets	**462,805**	369,909
Less:		
Goodwill and other intangible assets	**6,162**	4,814
Adjusted tangible assets	**$ 456,643**	$ 365,095
Stockholders' equity	**$ 31,370**	$ 28,884
Long-term debt issued to TOPrS[SM] partnerships, net of related investments[1]	**2,544**	2,639
Equity capital	**33,914**	31,523
Less:		
Goodwill and other intangible assets	**6,162**	4,814
Tangible equity capital	**$ 27,752**	$ 26,709
Leverage ratio[2]	**19.1x**	15.7x
Adjusted leverage ratio[3]	**13.6x**	11.7x
Adjusted tangible leverage ratio[4]	**16.5x**	13.7x

1 Due to the perpetual nature of TOPrS[SM] and other considerations, Merrill Lynch views the long-term debt issued to TOPrS[SM] partnerships (net of related investments) as a component of equity capital. However, the Long-term debt issued to TOPrS[SM] partnerships is reported as a liability for accounting purposes. TOPrS[SM] related investments were $548 million and $564 million at December 31, 2004 and December 26, 2003, respectively.

2 Total assets divided by equity capital.

3 Adjusted assets divided by equity capital.

4 Adjusted tangible assets divided by tangible equity capital.

Funding

Liquidity Risk Management

Merrill Lynch seeks to assure liquidity across market cycles and through periods of financial stress. Merrill Lynch's primary liquidity objective is to ensure that all unsecured debt obligations maturing within one year can be repaid without issuing new unsecured debt or requiring liquidation of business assets. In order to accomplish this objective, Merrill Lynch has established a set of liquidity practices that are outlined below. In addition, Merrill Lynch maintains a contingency funding plan that outlines actions that would be taken in the event of a funding disruption.

Maintain sufficient long-term capital: Merrill Lynch regularly reviews its mix of assets, liabilities and commitments to ensure the maintenance of adequate long-term capital sources to meet long-term capital requirements. Merrill Lynch's long-term capital sources include equity capital, long-term debt obligations and certain deposit liabilities in banking subsidiaries which are considered by management to be long-term or stable in nature.

At December 31, 2004 and December 26, 2003, Merrill Lynch had long-term capital of $199.0 billion and $168.6 billion, respectively.

(dollars in billions)

	December 31, 2004	December 26, 2003
Equity capital	**$ 33.9**	$ 31.5
Long-term debt obligations[1]	**87.0**	61.4
Deposit liabilities[2]	**78.1**	75.7
Total long-term capital	**$ 199.0**	$ 168.6

1 Total long-term borrowings less (i) the current portion and (ii) other subsidiary financing — non-recourse.

2 Includes $65.4 billion and $12.7 billion in U.S. and non-U.S. banking subsidiaries, respectively, in 2004, and $64.6 billion and $11.1 billion, respectively, in 2003.

The following items are generally financed with long-term capital:

- The portion of assets that cannot be self-funded in the secured financing markets, including long-term, illiquid assets such as certain loans, goodwill and fixed assets, considering stressed market conditions;
- Subsidiaries' regulatory capital;
- Collateral on derivative contracts that may be required in the event of changes in Merrill Lynch's ratings or movements in underlying instruments;
- Portions of commitments to extend credit based on the probability of drawdown.

At December 31, 2004, Merrill Lynch's long-term capital sources of $199.0 billion substantially exceeded Merrill Lynch's estimated long-term capital requirements.

In assessing the appropriateness of its long-term capital, Merrill Lynch seeks to: (1) ensure sufficient matching of its assets based on factors such as holding period, contractual maturity and regulatory restrictions and (2) limit the amount of liabilities maturing in any particular period. Merrill Lynch also considers circumstances that might cause contingent funding obligations, including early repayment of debt.

At December 31, 2004, senior debt issued by ML & Co. or by subsidiaries and guaranteed by ML & Co. totaled $109.9 billion. Except for the $2.5 billion of zero-coupon contingent convertible debt (LYONs®) that were outstanding at December 31, 2004, senior debt obligations issued by ML & Co. and senior debt issued by subsidiaries and guaranteed by ML & Co. do not contain provisions that could, upon an adverse change in ML & Co.'s credit rating, financial ratios, earnings, cash flows, or stock price, trigger a requirement for an early payment, additional collateral support, changes in terms, acceleration of maturity, or the creation of an additional financial obligation. Refer to Note 8 to the Consolidated Financial Statements for additional information.

Included in its debt obligations are structured notes issued by Merrill Lynch with returns linked to other debt or equity securities, indices, or currencies. Merrill Lynch could be required to immediately settle a structured note obligation for cash or other securities under certain circumstances, which is taken into account for liquidity planning purposes. Merrill Lynch typically hedges these notes with positions in derivatives and/or in the underlying instruments.

Merrill Lynch's bank subsidiaries that take deposits have liquidity policies, guidelines and practices in place aimed at ensuring sufficient liquidity is available at each bank to meet deposit obligations under stressed market conditions.

Prior to 2004, for regulatory reporting purposes, Merrill Lynch classified the majority of its deposits as brokered deposits, as defined by regulators. Merrill Lynch considers those deposits to provide a stable, long-term source of liquidity, based on Merrill Lynch's analysis of depositor behavior and other factors. Merrill Lynch has reviewed the characteristics of these deposits with its primary federal bank regulator and that regulator concurred in early 2005 that, based on these characteristics, the deposits are not brokered deposits. Merrill Lynch accordingly classifies these deposits as core deposits.

Maintain sufficient funding to repay short-term obligations: The main alternative funding sources to unsecured borrowings are repurchase agreements, securities loaned, other secured borrowings, which require pledging unencumbered securities held for trading or investment purposes, or collateral and proceeds from maturing loans and other assets. Nonetheless, a key funding assumption is accessibility to a repurchase market for highly rated government, agency and certain other securities.

Merrill Lynch maintains a liquidity portfolio of U.S. Government and agency obligations and other instruments of high credit quality that is funded with debt with a maturity greater than one year. The carrying value of this portfolio, net of related hedges, was $14.9 billion and $14.6 billion at December 31, 2004 and December 26, 2003, respectively. ML & Co. also maintained cash and cash equivalents and investments in short-term money market mutual funds of $6.9 billion at December 31, 2004.

In addition to its liquidity portfolio and cash balances, Merrill Lynch monitors the extent to which other unencumbered assets are available to ML & Co. as a source of funds, considering that some subsidiaries are restricted in their ability to upstream unencumbered assets to ML & Co. At December 31, 2004, unencumbered assets, including amounts that may be restricted, were in excess of $125 billion, including the carrying value of the liquidity portfolio and cash balances.

For liquidity planning purposes, Merrill Lynch considers as short-term debt obligations: (i) commercial paper and other short-term borrowings and (ii) the current portion of long-term borrowings. At December 31, 2004 and December 26, 2003, these short-term obligations totaled $24.2 billion and $25.7 billion, respectively.

(dollars in billions)

	December 31, 2004	December 26, 2003
Commercial paper and other short-term borrowings	**$ 4.0**	$ 5.0
Current portion of long-term borrowings	**20.2**	20.7
Total short-term obligations	**$ 24.2**	$ 25.7

Certain long-term borrowing agreements contain provisions whereby the borrowings are redeemable at the option of the holder at specified dates prior to maturity. Maturities of such borrowings are reported based on their put dates, rather than their contractual maturities. Management believes, however, that a portion of such borrowings will remain outstanding beyond their earliest redemption date.

At December 31, 2004, Merrill Lynch's separate liquidity portfolio, cash balances, maturing short-term assets and other unencumbered assets, some of which may be held in regulated entities but which management believes may be reasonably upstreamed to ML & Co., were more than the amount that would be required to repay Merrill Lynch's short-term obligations and other contingent cash outflows.

In addition to the aforementioned sources of funding available to meet short-term obligations, Merrill Lynch maintains credit facilities that are available to cover immediate funding needs. Merrill Lynch maintains a committed, multi-currency, unsecured bank credit facility that totaled $3.0 billion at December 31, 2004 and December 26, 2003. The facility, which expires in May 2005, is expected to be renewed. At December 31, 2004 and December 26, 2003, there were no borrowings outstanding under this credit facility, although Merrill Lynch borrows regularly from this facility.

Merrill Lynch also maintains a committed, secured credit facility with a financial institution that totaled $6.25 billion at December 31, 2004. The secured facility may be collateralized by government obligations eligible for pledging. The facility expires in 2014, but may be terminated with at least nine months notice by either party. At December 31, 2004, there were no borrowings outstanding under this facility. Refer to the discussion on VIEs in Note 6 to the Consolidated Financial Statements for additional information.

Concentrate unsecured financing at ML & Co.: ML & Co. is the primary issuer of all unsecured, non-deposit financing instruments that are used primarily to fund assets in subsidiaries, some of which are regulated. The benefits of this strategy are greater control, reduced financing costs, wider name recognition by creditors, and greater flexibility to meet variable funding requirements of subsidiaries. Where regulations, time zone differences, or other business considerations make this impractical, some subsidiaries enter into their own financing arrangements.

While Merrill Lynch concentrates excess funds at ML & Co., Merrill Lynch recognizes that regulatory restrictions may limit the free flow of funds from subsidiaries where assets are held to ML & Co. and also between subsidiaries. For example, a portion of deposits held by Merrill Lynch bank subsidiaries funds securities that can be sold or pledged to provide immediate liquidity for the banks. In addition, a portion of deposits are utilized to fund the long-term capital requirements of the banks. However, there are regulatory restrictions on the use of this liquidity for ML & Co. and non-bank affiliates of Merrill Lynch. Merrill Lynch takes these and other restrictions into consideration when evaluating the liquidity of individual legal entities and

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ML & Co. See Note 8 to the Consolidated Financial Statements for more information on borrowings.

Diversify unsecured funding sources: Merrill Lynch strives to continually expand and globally diversify its funding programs, its markets, and its investor and creditor base to minimize reliance on any one investor base or region. Merrill Lynch diversifies its borrowings by maintaining various limits, including a limit on the amount of commercial paper held by a single investor. Merrill Lynch benefits by distributing a significant portion of its debt issuances through its own sales force to a large, diversified global client base. Merrill Lynch also makes markets buying and selling its debt instruments.

Adhere to prudent governance processes: In order to ensure that both daily and strategic funding activities are appropriate and subject to senior management review and control, liquidity management is reviewed in Asset/Liability Committee meetings with Treasury management and is presented to Merrill Lynch's Risk Oversight Committee ("ROC"), ML & Co. executive management and the Finance Committee of the Board of Directors. Merrill Lynch also manages the growth and composition of its assets and sets limits on the level of unsecured funding at any time.

Asset and Liability Management

Merrill Lynch routinely issues debt in a variety of maturities and currencies to achieve low cost financing and an appropriate liability maturity profile. The cost and availability of unsecured funding may also be impacted by general market conditions or by matters specific to the financial services industry or Merrill Lynch. In 2004, corporate credit spreads narrowed considerably, which reduced the cost of funding for financial institutions, including Merrill Lynch.

Merrill Lynch uses derivative transactions to more closely match the duration of borrowings to the duration of the assets being funded, thereby enabling interest rate risk to be managed within limits set by the Corporate Risk Management Group ("CRM"). Interest rate swaps also serve to adjust Merrill Lynch's interest expense and effective borrowing rate principally to floating rate. Merrill Lynch also enters into currency swaps to hedge assets that are not financed through debt issuance in the same currency. Investments in subsidiaries in non-U.S. dollar currencies are also hedged in whole or in part to mitigate translation adjustments in the accumulated other comprehensive loss. See Notes 1 and 5 to the Consolidated Financial Statements for further information.

Credit Ratings

The cost and availability of unsecured funding are also impacted by credit ratings. In addition, credit ratings are important when competing in certain markets and when seeking to engage in long-term transactions including OTC derivatives. Factors that influence Merrill Lynch's credit ratings include the credit rating agencies' assessment of the general operating environment, relative positions in the markets in which Merrill Lynch competes, reputation, level and volatility of earnings, corporate governance, risk management policies, liquidity and capital management.

The senior debt and preferred stock ratings of ML & Co. and the ratings of preferred securities issued by subsidiaries on March 2, 2005 were as follows. Rating agencies express outlooks from time to time on these ratings. Each of these agencies describes its current outlook as stable.

Rating Agency	Senior Debt Ratings	Preferred Stock Ratings
Dominion Bond Rating Service Ltd.	AA (low)	Not Rated
Fitch Ratings	AA-	A+
Moody's Investors Service, Inc.	Aa3	A2
Rating & Investment Information, Inc. (Japan)	AA	A+
Standard & Poor's Ratings Services	A+	A-

RISK MANAGEMENT

Risk Management Philosophy

Risk-taking is an integral part of Merrill Lynch's core business activities. In the course of conducting its business operations, Merrill Lynch is exposed to a variety of risks including market, credit, liquidity, operational and other risks that are material and require comprehensive controls and ongoing oversight. Senior managers of Merrill Lynch's core businesses are responsible and accountable for management of the risks associated with their business activities. The Global Liquidity and Risk Management Group ("GLRM"), falls under the management responsibility of the Deputy Chief Financial Officer and ultimately the Chief Financial Officer. This group includes the independent control groups which manage credit risk and market risk, liquidity risk and operational risk, among other functions. Along with other control units these disciplines work to ensure risks are properly identified, monitored, and managed throughout Merrill Lynch. To accomplish this, Merrill Lynch has established a risk management process, which includes:

- A formal risk governance organization that defines the oversight process and its components;
- A regular review of the entire risk management process by the Audit Committee of the Board of Directors ("the Audit Committee");
- Clearly defined risk management policies and procedures supported by a rigorous analytical framework;
- Communication and coordination among the business, executive management, and risk functions while maintaining strict segregation of responsibilities, controls, and oversight; and
- Clearly articulated risk tolerance levels as defined by the ROC, which are regularly reviewed to ensure that Merrill Lynch's risk-taking is consistent with its business strategy, capital structure, and current and anticipated market conditions.

The risk management and control process ensures that Merrill Lynch's risk tolerance is well-defined and understood by the firm's businesses as well as by its executive management. Other groups, including Corporate Audit, Finance, and the Office of General Counsel ("OGC"), interact with GLRM to establish and maintain this overall risk management control process. While no risk management system can ever be absolutely complete, the goal of these control groups is to make certain that risk-related losses occur within acceptable, predefined levels.

Risk Governance Structure

Merrill Lynch's risk governance structure is comprised of the Audit Committee, a group composed of Merrill Lynch executive management (the "Executive Committee"), the ROC, the business units, GLRM, and various corporate governance committees.

The Audit Committee, which is comprised entirely of independent directors, has authorized the ROC to establish Merrill Lynch's risk management policies and approves the ROC charter. The ROC reports to the Executive Committee and provides the Audit Committee with regular credit and market risk updates.

The ROC establishes risk tolerance levels for the firm and authorizes material changes in Merrill Lynch's risk profile. This Committee also ensures that the risks assumed by Merrill Lynch are managed within these tolerance levels and verifies that Merrill Lynch has implemented appropriate policies for the effective management of risks. The Executive Committee must approve risk levels and all substantive changes to risk policies proposed by the ROC. The Executive Committee pays particular attention to risk concentrations and liquidity concerns.

The ROC is comprised of the heads of the key business segments and senior business and control managers and is chaired by the Chief Financial Officer. It oversees Merrill Lynch's risks and ensures that the business units create and implement processes to identify, measure, and monitor their risks. The ROC also assists the Executive Committee in determining risk tolerance levels for the firm's business units and monitors the activities of Merrill Lynch's corporate governance committees, reporting significant issues and transactions to the Executive Committee and the Audit Committee.

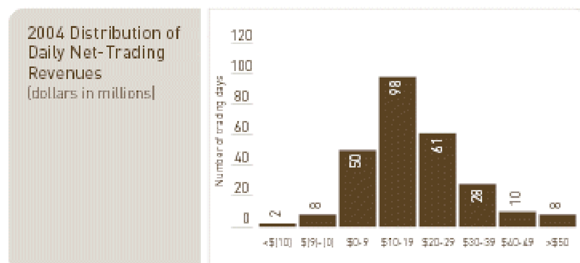
Various other governance committees exist to create policy, review activity, and ensure that new and existing business initiatives remain within established risk tolerance levels. Representatives of the principal independent control functions participate as voting members of these committees.

Corporate Risk Management

CRM is an independent control function responsible for Merrill Lynch's global market and credit risk management processes both within and across the firm's business units. The heads of the Market Risk and the Credit and Commitments Groups report directly to the Deputy Chief Financial Officer. Market risk is defined to be the potential change in value of financial instruments caused by fluctuations in interest rates, exchange rates, equity and commodity prices, credit spreads, and/or other risks. Credit risks are defined to be the potential for loss that can occur as a result of impairment in the creditworthiness of an issuer or counterparty or a default by an issuer or counterparty on its contractual obligations. CRM also provides Merrill Lynch with an overview of its risk for various aggregate portfolios and develops and maintains the analytics, systems, and policies to conduct all risk management functions.

CRM's chief monitoring and risk measurement tools are the Merrill Lynch Risk Frameworks. The Risk Frameworks define and communicate Merrill Lynch's risk tolerance and establish aggregate and broad overall risk limits for the firm. Market risk limits are intended to constrain exposure to specific asset classes, market risk factors, and Value-at-Risk ("VaR"). VaR is a statistical measure of the potential loss in the fair value of a portfolio due to adverse movements in underlying risk factors. Credit risk limits are intended to constrain the magnitude and tenor of exposure to individual counterparties and issuers, types of counterparties and issuers and countries. Risk Framework exceptions and violations are reported and investigated at pre-defined and appropriate levels of management. The Risk Framework limits have been approved by the Executive Committee and the risk parameters that define the Risk Frameworks have been reviewed by the Audit Committee. The Executive Committee reviews the Risk Frameworks annually and approves any material changes. The ROC reports all substantive Risk Framework changes to the Audit Committee.

The overall effectiveness of Merrill Lynch's risk processes and policies can be seen on a broader level when analyzing daily net trading revenues over time. CRM's policies and procedures of monitoring and controlling risk, combined with the businesses' focus on customer order-flow-driven revenues and selective proprietary positioning, have helped Merrill Lynch to reduce earnings volatility within its trading portfolios. While no guarantee can be given regarding future earnings volatility, Merrill Lynch will continue to pursue policies and procedures that assist the firm in measuring and monitoring its risks. The histogram below shows the distribution of daily net revenues from Merrill Lynch's trading businesses (principal transactions and net interest profit) for 2004.



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Market Risk

CRM's Market Risk Group is responsible for approving the products and markets in which Merrill Lynch's major business units and functions will transact and take risk. Moreover, it is responsible for identifying the risks to which these business units will be exposed in these approved products and markets. The Market Risk Group uses a variety of quantitative methods to assess the risk of Merrill Lynch's positions and portfolios. In particular, the Market Risk Group quantifies the sensitivities of Merrill Lynch's current portfolios to changes in market variables. These sensitivities are then utilized in the context of historical data to estimate earnings and loss distributions that Merrill Lynch's current portfolios would have incurred throughout the historical period. From these distributions, CRM derives a number of useful risk statistics, including VaR.

The VaR disclosed in the accompanying tables is an estimate of the amount that Merrill Lynch's current portfolios could lose with a specified degree of confidence, over a given time interval. The VaR for Merrill Lynch's overall portfolios is less than the sum of the VaRs for individual risk categories because movements in different risk categories occur at different times and, historically, extreme movements have not occurred in all risk categories simultaneously. The difference between the sum of the VaRs for individual risk categories and the VaR calculated for all risk categories is shown in the following tables and may be viewed as a measure of the diversification within Merrill Lynch's portfolios. CRM believes that the tabulated risk measures provide broad guidance as to the amount Merrill Lynch could lose in future periods, and CRM works continually to improve its measurement and the methodology of the firm's VaR. However, the calculation of VaR requires numerous assumptions and thus VaR should not be viewed as a precise measure of risk. In addition, VaR is not intended to capture worst case scenario losses.

To complement VaR and recognizing its inherent limitations, Merrill Lynch uses a number of additional risk measurement methods and tools as part of its overall market risk management process. These include stress testing and event risk analysis, which examine portfolio behavior under significant adverse market conditions, including scenarios that would result in material losses for the firm.

In the Merrill Lynch VaR system, CRM uses historical simulation to estimate VaR. Note that the VaR measure reported in the tables below for the trading and non-trading portfolios is for a 95% confidence level and one-day holding period, in contrast with prior reporting periods when a one-week holding period was used. The one-day VaR facilitates comparability with other global financial services firms. Prior periods have been restated to reflect this change.

To calculate VaR, CRM aggregates sensitivities to market risk factors and combines them with a database of historical market factor movements to simulate a series of profits and losses. The level of loss that is exceeded in that series 5% of the time is used as the estimate for the 95% confidence level VaR. The overall total VaR amounts are presented across major risk categories, including exposure to volatility risk found in certain products (e.g., options).

VaR associated with Merrill Lynch's U.S. banks is included in the trading and non-trading VaR tables that follow. Virtually all of the U.S. bank VaR is related to lending activities and the non-trading investment portfolio assets, and is reflected in the non-trading VaR table, with a small portion included in the trading-related VaR table. The non-trading VaR also includes the interest rate risk associated with Merrill Lynch's LYONs® and TOPrS℠. Non-trading VaR also includes certain investments in debt and equity securities, including private equity securities, and real estate and non-performing loan investments. See Note 8 to the Consolidated Financial Statements for further information on LYONs® and TOPrS℠.

As part of the risk disclosure process, the Market Risk Group continues to refine the alignment of certain asset classes across the trading and non-trading VaR tables while balancing accounting treatments and internal risk management processes.

The table that follows presents Merrill Lynch's average and year-end VaR for trading instruments for 2004 and 2003. Additionally, high and low VaR for 2004 is presented independently for each risk category and overall. Because high and low VaR numbers for these risk categories may have occurred on different days, high and low numbers for diversification benefit would not be meaningful.

(dollars in millions)

	Year-end 2004	Daily Average 2004	High 2004	Low 2004	Year-end 2003	Daily Average 2003
Trading						
Value-at-Risk[1]						
Interest rate and credit spread	$ 32	$ 28	$ 43	$ 18	$ 29	$ 26
Equity	23	18	52	10	15	19
Commodity	9	2	10	–	–	–
Currency	1	1	7	–	1	1
Volatility	9	13	23	8	16	12
	74	62			61	58
Diversification benefit	(33)	(27)			(24)	(25)
Overall[2]	$ 41	$ 35	$ 65	$ 23	$ 37	$ 33

1 Based on a 95% confidence level and a one-day holding period.

2 Overall trading VaR using a 95% confidence level and a one-week holding period was $74 million and $79 million at year-end 2004 and 2003, respectively.

Merrill Lynch has increased and, if market conditions remain favorable, may continue to increase its risk taking in a number of growth areas, including certain lending areas, proprietary trading activities and principal investments. These activities provide growth opportunities while also increasing the loss potential under certain market conditions. CRM monitors these risk levels on a daily basis to ensure they remain within corporate risk guidelines and tolerance levels.

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Overall one-day trading VaR increased in 2004 due to increases in interest rate and credit spread exposures as well as increases in equity exposures. These were due to proprietary positioning and client-servicing activities. In contrast to the one-day trading VaR, the one-week trading VaR showed a decrease from the prior year, as indicated in the footnote to the table above. The difference between the two measures is due to greater gains on long option positions on the one-week VaR than on the one-day VaR. In addition, it should be noted that the risk exposures of Merrill Lynch's newly acquired commodities business were integrated with the firmwide VaRs during the period and are shown on the commodity line in the preceding table.

The following table presents Merrill Lynch's VaR for non-trading instruments.

(dollars in millions)

	Year-end 2004	**Quarterly Average 2004**	Year-end 2003	Quarterly Average 2003
Non-trading Value-at-Risk [1]				
Interest rate and credit spread	**$ 44**	**$ 43**	$ 44	$ 35
Equity	**40**	**29**	25	23
Currency	**4**	**7**	6	2
Volatility	**18**	**12**	14	11
	106	**91**	89	71
Diversification benefit	**(25)**	**(24)**	(29)	(25)
Overall[2]	**$ 81**	**$ 67**	$ 60	$ 46

1 Based on a 95% confidence level and a one-day holding period.

2 Overall non-trading VaR using a 95% confidence level and a one-week holding period was $180 million and $118 million at year-end 2004 and 2003, respectively.

Overall non-trading VaR increased in 2004 due primarily to an increase in private equity exposure.

Credit Risk

CRM's Credit and Commitments Group assesses the creditworthiness of existing and potential individual clients, institutional counterparties and issuers, and determines firmwide credit risk levels within the Credit Risk Framework Counterparty and Country limits. The group reviews and monitors specific transactions as well as portfolio and other credit risk concentrations both within and across businesses. The group is also responsible for ongoing monitoring of credit quality and limit compliance and actively works with all the business units of Merrill Lynch to manage and mitigate credit risk.

The Credit and Commitments Group uses a variety of methodologies to set limits on exposure resulting from a counterparty, issuer or country failing to fulfill its contractual obligations. The group performs analysis in the context of industrial, regional, and global economic trends and incorporates portfolio and concentration effects when determining tolerance levels. Credit risk limits take into account measures of both current and potential exposure and are set and monitored by broad risk type, product type, and maturity. Credit risk mitigation techniques include, where appropriate, the right to require initial collateral or margin, the right to terminate transactions or to obtain collateral should unfavorable events occur, the right to call for collateral when certain exposure thresholds are exceeded, and the purchase of credit default protection. With senior management involvement, Merrill Lynch conducts regular portfolio reviews, monitors counterparty creditworthiness, and evaluates transaction risk with a view toward early problem identification and protection against unacceptable credit-related losses. In 2004, the Credit and Commitments Group continued investing additional resources to enhance its methods and policies in order to assist in the management of Merrill Lynch's credit risk.

Senior members of the Credit and Commitments Group chair various commitment committees with membership across business and support units. These committees review and approve commitments, underwritings and syndication strategies related to Global Debt and Syndicated Loans, Equity, Real Estate Finance and Asset Based Finance among other activities.

Credit risk and exposure that originates from Merrill Lynch's GPC business is monitored by CRM. Exposures include credit risks for mortgages, home equity lines of credit, margin accounts, loans to individuals and working capital lines and other loans that Merrill Lynch maintains with certain small business clients. When required, these exposures are collateralized in accordance with regulatory requirements governing such activities. Credit risk in Merrill Lynch's U.S. banks' investment and loan portfolios is also monitored within CRM. Merrill Lynch's U.S. banks have additional credit approval and monitoring processes in place.

Merrill Lynch enters into International Swaps and Derivatives Association, Inc. master agreements or their equivalent ("master netting agreements") with substantially all of its derivative counterparties as soon as possible. The agreements are negotiated with each counterparty and can be complex in nature. While every effort is taken to execute such agreements, it is possible that a counterparty may be unwilling to sign such an agreement and, as a result, would subject Merrill Lynch to additional credit risk. Master netting agreements provide protection in bankruptcy in certain circumstances and, in some cases, enable receivables and payables with the same counterparty to be offset on the Consolidated Balance Sheets, providing for a more meaningful balance sheet presentation of credit exposure. However, the enforceability of master netting agreements under bankruptcy laws in certain countries or in certain industries is not free from doubt, and receivables and payables with counterparties in these countries or industries are accordingly recorded on a gross basis.

In addition, to reduce the risk of loss, Merrill Lynch requires collateral, principally cash and U.S. Government and agency securities, on certain derivative transactions. From an economic standpoint, Merrill Lynch evaluates risk exposures net of related collateral. The following is a summary of counterparty credit ratings for the replacement cost (net of $11.1 billion of collateral) of OTC trading derivatives in a gain position by maturity at December 31, 2004. (Note that the following table is inclusive of credit exposure from OTC derivative transactions only and does not include other material credit exposures).

(dollars in millions)

Credit Rating1	Years to Maturity 0-3	3+ -5	5+ -7	Over 7	Cross-Maturity Netting2	Total
AAA	$ 3,032	$ 617	$ 668	$ 2,819	$ (1,813)	$ 5,323
AA	4,808	1,225	1,026	2,557	(1,852)	7,764
A	2,293	612	993	1,771	(1,170)	4,499
BBB	1,658	565	658	3,324	(901)	5,304
Other	1,491	296	308	474	(326)	2,243
Total	$13,282	$ 3,315	$ 3,653	$10,945	$ (6,062)	$25,133

1 Represents credit rating agency equivalent of internal credit ratings.

2 Represents netting of payable balances with receivable balances for the same counterparty across maturity band categories. Receivable and payable balances with the same counterparty in the same maturity category, however, are net within the maturity category.

In addition to obtaining collateral, Merrill Lynch attempts to mitigate its default risk on derivatives whenever possible by entering into transactions with provisions that enable Merrill Lynch to terminate or reset the terms of its derivative contracts.

Operational Risk

Merrill Lynch defines operational risk as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Some of these risks cannot be avoided, for example, the exposure to natural or man-made disasters, but can be mitigated by management actions, recovery plans and insurance. Merrill Lynch manages operational risks in a variety of ways. These include maintaining a comprehensive system of internal controls, using technology to automate processes and reduce manual errors, monitoring and analyzing risk events and trends, employing experienced staff, monitoring business activities by compliance and audit professionals, maintaining fully operational, off-site backup facilities, requiring education and training of employees, and emphasizing the importance of management oversight.

Operational Risk management is an important discipline in which Merrill Lynch continues to invest. The primary responsibility for managing operational risk on a day-to-day basis lies with Merrill Lynch's businesses and support groups. While each business and support group has processes and systems in place to address operational risks within their unit, the Operational Risk Management Group ("ORM") has overall responsibility to provide policies, tools, and the education necessary to ensure widespread effective practices within Merrill Lynch. ORM is part of Merrill Lynch's overall risk governance structure and is an independent group similar to the CRM function, which manages market and credit risks. ORM's responsibilities include development and implementation of operational risk assessment tools; monitoring and reporting, including tracking operational losses; and education and training materials. The group partners with Corporate Audit, OGC, Compliance, Technology, Finance, Human Resources, Treasury, and the business and regional areas to evaluate risks, take actions to mitigate risks, and adhere to regulatory requirements.

Liquidity Risk

Liquidity relates to the ability of a company to repay short-term borrowings with new borrowings or assets that can be quickly converted into cash while meeting other obligations and continuing to operate as a going concern. Liquidity risk is particularly important for financial services firms and includes both the potential inability to raise funding with appropriate maturity and interest rate characteristics as well as the inability to liquidate an asset in a timely manner at a reasonable price. For more information on how Merrill Lynch manages liquidity risk, see the Capital and Funding section.

Other Risks

Merrill Lynch encounters a variety of other risks, which could have the ability to impact the viability, profitability, and cost-effectiveness of present or future transactions. Such risks include political, tax, and regulatory risks that may arise due to changes in local laws, regulations, accounting standards, or tax statutes. To assist in the mitigation of such risks, Merrill Lynch rigorously reviews new and pending legislation and regulations. Additionally, Merrill Lynch employs professionals in jurisdictions in which the company operates to actively follow issues of potential concern or impact to the firm and to participate in related interest groups.

Over the previous three years, the research function at integrated broker-dealers has been the subject of substantial regulatory and media attention. As a result of regulatory and legal mandates as well as firm initiatives, Merrill Lynch has enacted a number of new policies to enhance the quality of its research product including: modifying the compensation system for research analysts; forming a Research Recommendations Committee to review equity analysts' investment recommendations; adopting a new simplified securities rating system; implementing new policies and procedures to comply with all legal requirements, including those limiting communications between equity research analysts and investment banking and other origination personnel; and adding additional disclosures on research reports regarding potential conflicts of interest. Merrill Lynch has also appointed an independent consultant to identify independent third-party research providers who will provide fundamental research on certain companies covered by Merrill Lynch. This research has been made available to Merrill Lynch private clients in the United States and, upon request, to institutional clients in the United States in accordance with legal requirements.

The compensation system for research analysts includes an evaluation of the performance of analysts' recommendations, including the extent to which the analyst's insights and recommendations have benefited investors. The compensation of all analysts responsible for the substance of an equity research report is required to be reviewed and approved by a committee reporting to the Board of Directors of MLPF&S. The Management Development and Compensation Committee of the ML & Co. Board of Directors, a Committee consisting entirely of independent directors, is also

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required to review this compensation process for consistency with certain legal requirements. Merrill Lynch's Investment Banking Group has no input into research analyst compensation.

NON-INVESTMENT GRADE HOLDINGS AND HIGHLY LEVERAGED TRANSACTIONS

Non-investment grade holdings and highly leveraged transactions involve risks related to the creditworthiness of the issuers or counterparties and the liquidity of the market for such investments. Merrill Lynch recognizes these risks and, whenever possible, employs strategies to mitigate exposures. The specific components and overall level of non-investment grade and highly leveraged positions may vary significantly from period to period as a result of inventory turnover, investment sales, and asset redeployment.

In the normal course of business, Merrill Lynch underwrites, trades, and holds non-investment grade cash instruments in connection with its investment banking, market-making, and derivative structuring activities. Non-investment grade holdings have been defined as debt and preferred equity securities rated lower than BBB or equivalent ratings by recognized credit-rating agencies, sovereign debt in emerging markets, amounts due under derivative contracts from non-investment grade counterparties, and other instruments that, in the opinion of management, are non-investment grade.

In addition to the amounts included in the following table, derivatives may also expose Merrill Lynch to credit risk related to the underlying security where a derivative contract can either replicate ownership of the underlying security (e.g., long total return swaps) or potentially force ownership of the underlying security (e.g., short put options). Derivatives may also subject Merrill Lynch to credit spread or issuer default risk, in that changes in credit spreads or in the credit quality of the underlying securities may adversely affect the derivative's fair values. Merrill Lynch seeks to manage these risks by engaging in various hedging strategies to reduce its exposure associated with non-investment grade positions, such as purchasing an option to sell the related security or entering into other offsetting derivative contracts.

Merrill Lynch provides financing and advisory services to, and invests in, companies entering into leveraged transactions, which may include leveraged buyouts, recapitalizations, and mergers and acquisitions. On a selected basis, Merrill Lynch provides extensions of credit to leveraged companies, in the form of senior and subordinated debt, as well as bridge financing. In addition, Merrill Lynch syndicates loans for non-investment grade companies or in connection with highly leveraged transactions and may retain a portion of these loans.

Merrill Lynch holds direct equity investments in leveraged companies and interests in partnerships that invest in leveraged transactions. Merrill Lynch has also committed to participate in limited partnerships that invest in leveraged transactions. Future commitments to participate in limited partnerships and other direct equity investments will continue to be made on a select basis.

Trading Exposures

The following table summarizes trading exposures to non-investment grade or highly leveraged issuers or counterparties at year-end 2004 and 2003:

(dollars in millions)

	2004	2003
Trading assets:		
Cash instruments	**$11,929**	$ 8,331
Derivatives	**4,884**	4,124
Trading liabilities — cash instruments	**(2,721)**	(2,024)
Collateral on derivative assets	**(2,641)**	(2,335)
Net trading asset exposure	**$11,451**	$ 8,096

Included in the preceding table are debt and equity securities and bank loans of companies in various stages of bankruptcy proceedings or in default. At December 31, 2004, the carrying value of such debt and equity securities totaled $539 million, of which 58% resulted from Merrill Lynch's market-making activities in such securities. This compared with $259 million at December 26, 2003, of which 18% related to market-making activities. Also included are distressed bank loans totaling $176 million and $143 million at year-end 2004 and 2003, respectively.

Non-Trading Exposures

The following table summarizes Merrill Lynch's non-trading exposures to non-investment grade or highly leveraged corporate issuers or counterparties at year-end 2004 and 2003:

(dollars in millions)

	2004	2003
Investment securities	**$ 455**	$ 183
Loans, notes, and mortgages — commercial[1,2]	**10,278**	8,892
Other investments[3] :		
Partnership interests	**1,534**	902
Other equity investments[4]	**691**	716

1 Includes accrued interest.

2 Includes $9.3 billion and $8.2 billion of secured loans at year-end 2004 and 2003, respectively.

3 Includes a total of $491 million and $508 million in investments held by employee partnerships at year-end 2004 and 2003, respectively, for which a portion of the market risk of the investments rests with the participating employees.

4 Includes investments in 191 and 204 enterprises at year-end 2004 and 2003, respectively.

The following table summarizes Merrill Lynch's commitments with exposure to non-investment grade or highly leveraged counterparties at year-end 2004 and 2003:

(dollars in millions)

	2004	2003
Unutilized revolving lines of credit and other lending commitments	**$14,883**	$ 4,423
Additional commitments to invest in partnerships[1]	**973**	426

1 Includes $102 million and $150 million, at year-end 2004 and 2003, respectively, related to deferred compensation plans.

At December 31, 2004, Merrill Lynch's largest non-investment grade industry exposure was to the telecommunications sector.

LITIGATION

Certain actions have been filed against Merrill Lynch in connection with Merrill Lynch's business activities. Although the ultimate outcome of legal actions, arbitration proceedings, and claims pending against ML & Co. or its subsidiaries cannot be ascertained at this time and the results of legal proceedings cannot be predicted with certainty, it is the opinion of management that the resolution of these actions will not have a material, adverse effect on the financial condition of Merrill Lynch as set forth in the Consolidated Financial Statements, but may be material to Merrill Lynch's operating results or cash flows for any particular period and may impact ML & Co.'s credit ratings. Refer to Critical Accounting Policies and Estimates section and Note 11 to the Consolidated Financial Statements for additional information.

RECENT DEVELOPMENTS

New Accounting Pronouncements

On December 21, 2004, the Financial Accounting Standards Board ("FASB") issued a FASB Staff Position ("FSP"), 109-2, *Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004.* The FSP provides guidance on the impact of the new tax law's one-time deduction for qualifying repatriations of foreign earnings. The deduction can result in a lower tax rate on repatriation of certain foreign earnings. To the extent that the cumulative undistributed earnings of non-U.S. subsidiaries were permanently reinvested, no deferred U.S. federal income taxes have been provided. Merrill Lynch may elect to apply this provision to qualifying earnings repatriations in 2005. Merrill Lynch has begun an assessment of the impact of the repatriation provision, but does not expect to complete the assessment until after Congress or the Treasury Department provides additional clarifying language on key elements of the provision. The range of possible amounts of unremitted foreign earnings that are being considered for possible repatriation is from $0 to $4.3 billion. The related potential range of income tax effects is between $0 and $226 million.

On December 16, 2004, the FASB issued SFAS No. 123 (revised 2004), *Share-Based Payment,* a revision of SFAS No. 123, *Accounting for Stock-Based Compensation.* Merrill Lynch expects to adopt the provisions of revised SFAS No. 123 in the third quarter of 2005. The approach to accounting for share-based payments under revised SFAS No. 123 is substantially unchanged from that allowed under SFAS No. 123. Because Merrill Lynch adopted the provisions of SFAS No. 123 in the first quarter of 2004, the impact of adopting the revised SFAS No. 123 is not expected to be significant. See Note 13 to the Consolidated Financial Statements for further information on share-based compensation arrangements.

On September 30, 2004, the EITF finalized its previous consensus regarding Issue 04-8 ("EITF 04-8"), *The Effect of Contingently Convertible Debt on Diluted Earnings Per Share.* The guidance in this Issue requires that contingently convertible instruments that are, upon conversion, settleable in shares of the issuer's common stock be included in diluted earnings per share computations (if dilutive) regardless of whether the market price trigger has been met.

In December of 2004, Merrill Lynch initiated an exchange offer of one of its contingent convertible issuances ("floating-rate LYONs®") for a new convertible instrument, which will settle partly in cash and partly in stock. More specifically, the accreted principal amount will settle in cash and the "in the money" amount of the conversion option will settle in stock. Additionally, in December 2004, Merrill Lynch repurchased $2.9 billion face amount of its fixed-rate LYONs®. Only those shares associated with floating-rate LYONs® that were not exchanged, and the fixed-rate LYONs® that were not repurchased, which each continue to be settled exclusively in shares upon conversion, have been included in current and prior periods' diluted earnings per share.

Merrill Lynch adopted the provisions of EITF 04-8 during the fourth quarter of 2004, which required restatement of prior periods' diluted earnings per share. As a result of the adoption of EITF 04-8, diluted shares outstanding increased by approximately 3.2 million shares in 2004 and 2003. Diluted earnings per share was reduced by $.01 in 2004 and 2003. See Note 8 to the Consolidated Financial Statements for additional information on LYONs®.

On June 30, 2004, the EITF reached a consensus on Issue 02-14, *Whether the Equity Method of Accounting Applies When an Investor Does Not Have an Investment in Voting Stock of an Investee but Exercises Significant Influence through Other Means.* The consensus reached indicates that in situations where an investor has the ability to exercise significant influence over the investee, an investor should apply the equity method of accounting only when it has either common stock or "in-substance" common stock of a corporation. The guidance prohibits the application of the equity method in instances where an investment is neither common stock nor "in-substance" common stock. Merrill Lynch adopted the new guidance in the fourth quarter of 2004 on a prospective basis, and as a result, has adopted the cost method of accounting for an investment to which the equity method of accounting had previously been applied. Under the equity method of accounting, Merrill Lynch recognized cumulative $320 million in other revenues related to this investment over the period from the third quarter of 2003 to the third quarter of 2004. Had Merrill Lynch continued to apply the equity method of accounting, other revenues would have been $23 million higher, or $.01 per diluted share, in the fourth quarter of 2004.

On May 19, 2004, the FASB issued FSP 106-2, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003,* which supersedes FSP 106-1 of the same title issued in January 2004. FSP 106-2 provides guidance on accounting for the effects of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 ("the Act") that was signed into law on December 8, 2003. The Act allows for a tax-free government subsidy to employers providing "actuarially equivalent" prescription drug benefits to its

Medicare eligible retirees. Management concluded that the benefits provided under Merrill Lynch's plan are "actuarially equivalent" to Medicare Part D and qualify for the subsidy provided by the Act. Effective for the third quarter of 2004, Merrill Lynch adopted FSP 106-2 using the prospective application method. As a result, Merrill Lynch's accumulated postretirement benefit obligation has been reduced by approximately $45 million and the net periodic postretirement benefit cost for the third and fourth quarters of 2004 decreased by $2.6 million.

In March 2004, the EITF reached a final consensus on Issue 03-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments.* EITF 03-1 requires that when the fair value of an investment security is less than its carrying value, an impairment exists for which the determination must be made as to whether the impairment is other-than-temporary. The EITF 03-1 impairment model applies to all investment securities accounted for under SFAS No. 115, *"Accounting for Certain Investments in Debt and Equity Securities,"* and to investment securities accounted for under the cost method to the extent an impairment indicator exists. Under the guidance, the determination of whether an impairment is other-than-temporary and therefore would result in a recognized loss depends on market conditions and management's intent and ability to hold the securities with unrealized losses. In September 2004, the FASB approved FSP EITF 03-1, which defers the effective date for recognition and measurement guidance contained in EITF 03-1 until certain issues are resolved. Merrill Lynch will adopt the guidance at the time it is issued. Merrill Lynch previously implemented the disclosure requirements of EITF 03-1 in its December 26, 2003 Consolidated Financial Statements. See Note 4 to the Consolidated Financial Statements for additional information.

On December 23, 2003, the FASB issued SFAS No. 132 (revised 2003), *Employers' Disclosures about Pensions and Other Postretirement Benefits.* The revised SFAS No. 132 retains the disclosure requirements in the original statement and requires additional disclosures about pension plan assets, benefit obligations, cash flows, benefit costs and other relevant information. Merrill Lynch adopted the provisions of SFAS No. 132 as of December 26, 2003. See Note 12 to the Consolidated Financial Statements for these disclosures.

In December of 2003, the American Institute of Certified Public Accountants ("AICPA") issued Statement of Position ("SOP") 03-3, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer.* SOP 03-3 addresses revenue recognition and impairment assessments for certain loans and debt securities that were purchased at a discount that was at least in part due to credit quality. SOP 03-3 states that where expected cash flows from the loan or debt security can be reasonably estimated, the difference between the purchase price and the expected cash flows (i.e., the "accretable yield") should be accreted into income. In addition, the SOP prohibits the recognition of an allowance for loan losses on the purchase date. Further, the SOP requires that any subsequent allowance for loan losses be supported through a cash flow analysis, on either an individual or on a pooled basis, for all loans that fall within the scope of the guidance. Merrill Lynch will adopt SOP 03-3 as of the beginning of fiscal year 2005. The adoption of the guidance will not have a material impact on the Consolidated Financial Statements.

On July 7, 2003, the AICPA issued SOP 03-1, *Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts.* The SOP was effective for financial statements for Merrill Lynch beginning in 2004. The SOP required the establishment of a liability for contracts that contain death or other insurance benefits using a specified reserve methodology that is different from the methodology that Merrill Lynch previously employed. The adoption of SOP 03-1 resulted in additional pre-tax expense of approximately $40 million in 2004. This resulted in a reduction in diluted earnings per share of $.03.

On January 17, 2003, the FASB issued FASB Interpretation No. 46 ("FIN 46"), which clarifies when an entity should consolidate entities that are considered VIEs, and, on December 24, 2003, the FASB issued a revised standard ("FIN 46R"). A VIE is an entity in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties, and may include many types of Special Purpose Entities ("SPEs"). FIN 46R requires that an entity consolidate a VIE if that enterprise has a variable interest that will absorb a majority of the VIE's expected losses, receive a majority of the VIE's expected residual returns, or both. FIN 46R does not apply to qualifying special purpose entities ("QSPEs"), the accounting for which is governed by SFAS No. 140. As permitted by the transition guidance in FIN 46R, Merrill Lynch adopted the revised standard on an entity-by-entity basis. At December 26, 2003, Merrill Lynch applied FIN 46R to all VIEs with which it is involved, with the exception of those VIEs that issue Merrill Lynch TOPrS^{SM}. The adoption of FIN 46R at December 26, 2003 did not have a material effect on the Consolidated Financial Statements. As of March 26, 2004, Merrill Lynch applied FIN 46R to those VIEs that issue TOPrS^{SM}. As a result, these VIEs were deconsolidated. The deconsolidation of TOPrS^{SM} did not have a material impact on the Consolidated Financial Statements of Merrill Lynch. See Note 6 to the Consolidated Financial Statements for additional FIN 46R disclosure.

MANAGEMENT'S DISCUSSION OF FINANCIAL RESPONSIBILITY AND REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

FINANCIAL RESPONSIBILITY

Oversight is provided by independent units within Merrill Lynch, working together to maintain Merrill Lynch's internal control standards. Corporate Audit reports directly to the Audit Committee of the Board of Directors, providing independent appraisals of Merrill Lynch's internal controls and compliance with established policies and procedures. Finance management establishes accounting policies and procedures, measures and monitors financial risk, and independently from the businesses prepares financial statements that fairly present the underlying transactions and events of Merrill Lynch. Treasury monitors capital adequacy and liquidity management. Corporate Risk Management is both independent from business line management and has oversight responsibility for Merrill Lynch's market and credit risks. This group has clear authority to enforce trading and credit limits using various systems and procedures to monitor positions and risks. The Office of the General Counsel serves in a counseling and advisory role to Management and the business groups. In this role, the group develops policies; monitors compliance with internal policies, external rules, and industry regulations; and provides legal advice, representation, execution, and transaction support to the businesses.

ML & Co. has established a Disclosure Committee to assist the Chief Executive Officer and Chief Financial Officer in fulfilling their responsibilities for overseeing the accuracy and timeliness of disclosures made by ML & Co. The Disclosure Committee is made up of senior representatives of Merrill Lynch's Finance, Investor Relations, Office of the General Counsel, Treasury, Tax and Corporate Risk Management groups and is responsible for implementing and evaluating disclosure controls and procedures on an ongoing basis. The Disclosure Committee meets at least eight times a year as meetings are held as needed to review key events and disclosures impacting the period throughout each fiscal quarter and prior to the filing of the 10-K and 10-Q reports and proxy statement with the SEC.

The Board of Directors designated Merrill Lynch's Guidelines for Business Conduct as the Company's code of ethics for directors, officers and employees in performing their duties. The Guidelines set forth written standards for employee conduct with respect to conflicts of interest, disclosure obligations, compliance with applicable laws and rules and other matters. The Guidelines also set forth information and procedures for employees to report ethical or accounting concerns, misconduct or violations of the Guidelines in a confidential manner. The Board of Directors adopted Merrill Lynch's Code of Ethics for Financial Professionals in 2003. The Code, which applies to all Merrill Lynch professionals who participate in the Company's public disclosure process, supplements our Guidelines for Business Conduct and is designed to promote honest and ethical conduct, full, fair and accurate disclosure and compliance with applicable laws.

The independent registered public accounting firm, Deloitte & Touche LLP, performs annual audits of Merrill Lynch's financial statements in accordance with generally accepted auditing standards. They openly discuss with the Audit Committee their views on the quality of the financial statements and related disclosures and the adequacy of Merrill Lynch's internal accounting controls. Quarterly review reports on the interim financial statements are also issued by Deloitte & Touche LLP. The Audit Committee appoints the independent registered public accounting firm. The independent registered public accounting firm is given unrestricted access to all financial records and related data, including minutes of meetings of stockholders, the Board of Directors, and committees of the Board.

As part of their oversight role, committees of the Board supervise management in the formulation of corporate policies, procedures and controls. The Audit Committee, which consists of six independent directors, oversees Merrill Lynch's system of internal accounting controls and the internal audit function. In addition, the Audit Committee oversees adherence to risk management and compliance policies, procedures, and functions. It also reviews the annual Consolidated Financial Statements with Management and Merrill Lynch's independent registered public accounting firm, and evaluates the performance, independence and fees of our independent registered public accounting firm and the professional services it provides. The Audit Committee also has the sole authority to appoint or replace the independent registered public accounting firm.

The Finance Committee, which consists of six independent directors, reviews, recommends, and approves policies regarding financial commitments and other expenditures. It also reviews and approves certain financial commitments, acquisitions, divestitures, and proprietary investments. In addition, the Finance Committee oversees corporate funding policies and financing plans and also reviews procedures for implementing and adhering to such policies.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

During 2003, Merrill Lynch formed a Project Management Office to facilitate ongoing internal control reviews, coordinate the documentation process for these reviews, provide direction to its business and control groups involved in this initiative and assist in the assessment and remediation of any identified weaknesses in internal controls over financial reporting. Merrill Lynch also formed a Steering Committee comprised of senior management from Merrill Lynch's Finance, Corporate Audit, Corporate Risk Management, Operations, Technology and Legal functions. This Committee has been responsible for reviewing the progress of the Sarbanes-Oxley Section 404 compliance initiative and directing the efforts of the Project Management Office. During 2004, the Project Management Office and Steering Committee completed their review of documentation evidencing key controls, performed walkthroughs, and conducted tests of controls and operating effectiveness in order to be in a position to express a view to management on the effectiveness of our internal control over financial reporting.

Management recognizes its responsibility for establishing and maintaining adequate internal control over financial reporting and has designed internal controls and procedures to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements and related notes in accordance with generally accepted accounting principles in the United States of America. Management assessed the effectiveness of Merrill Lynch's internal control over financial reporting as of December 31, 2004. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Based on our assessment, management believes that Merrill Lynch maintained effective internal control over financial reporting as of December 31, 2004.

The audited consolidated financial statements of Merrill Lynch include the results of the following entities, but management's assessment does not include an assessment of the internal control over financial reporting of these entities because they were acquired during the fourth quarter of 2004. This approach is consistent with published SEC guidance on the permissible scope of management's internal control report.

- The commodities trading businesses of Entergy-Koch, LP, a venture of Entergy Corporation and privately-owned Koch Energy, Inc., a subsidiary of Koch Industries, Inc. (acquired on November 1, 2004).
- Mortgages plc, a U.K. non-conforming mortgage lender and servicer (acquired on October 29, 2004).

The financial statements for these entities reflect total assets and revenues constituting less than one percent of the related consolidated financial statement amounts as of and for the year ended December 31, 2004. See Note 16 to the Consolidated Financial Statements for additional information regarding these acquisitions.

Deloitte & Touche LLP, Merrill Lynch's independent registered public accounting firm, has issued an attestation report on management's assessment of Merrill Lynch's internal control over financial reporting and on the effectiveness of Merrill Lynch's internal control over financial reporting. This report appears under *"Report of Independent Registered Public Accounting Firm"* on the following page.

New York, New York
February 25, 2005

Deloitte.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Merrill Lynch & Co., Inc.:

We have audited management's assessment, included in the accompanying Report on Internal Control Over Financial Reporting, that Merrill Lynch & Co., Inc. and subsidiaries ("Merrill Lynch") maintained effective internal control over financial reporting as of December 31, 2004, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. As described in the Report on Internal Control Over Financial Reporting, management excluded from their assessment the internal control over financial reporting at Entergy-Koch, LP and Mortgages plc, which were acquired on November 1, 2004 and October 29, 2004, respectively, and whose financial statements reflect total assets and revenues constituting less than one percent of the related consolidated financial statement amounts as of and for the year ended December 31, 2004. Accordingly, our audit did not include the internal control over financial reporting at Entergy-Koch, LP and Mortgages plc. Merrill Lynch's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of Merrill Lynch's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Merrill Lynch maintained effective internal control over financial reporting as of December 31, 2004, is fairly stated, in all material respects, based on the criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, Merrill Lynch maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on the criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2004 of Merrill Lynch and our report dated March 2, 2005 expressed an unqualified opinion on those financial statements.

Deloitte & Touche LLP

New York, New York
March 2, 2005

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Deloitte.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Merrill Lynch & Co., Inc.:

We have audited the accompanying consolidated balance sheets of Merrill Lynch & Co., Inc. and subsidiaries ("Merrill Lynch") as of December 31, 2004 and December 26, 2003, and the related consolidated statements of earnings, changes in stockholders' equity, comprehensive income and cash flows for each of the three years in the period ended December 31, 2004. These financial statements are the responsibility of Merrill Lynch's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Merrill Lynch as of December 31, 2004 and December 26, 2003, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Merrill Lynch's internal control over financial reporting as of December 31, 2004, based on the criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 2, 2005 expressed an unqualified opinion on management's assessment of the effectiveness of Merrill Lynch's internal control over financial reporting and an unqualified opinion on the effectiveness of Merrill Lynch's internal control over financial reporting.

Deloitte & Touche LLP

New York, New York
March 2, 2005

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CONSOLIDATED STATEMENTS OF EARNINGS

(dollars in millions, except per share amounts)

	Year Ended Last Friday in December 2004 (53 weeks)	2003 (52 weeks)	2002 (52 weeks)
Net Revenues			
Asset management and portfolio service fees	**$ 5,440**	$ 4,698	$ 4,911
Commissions	**4,877**	4,299	4,529
Principal transactions	**2,300**	3,233	2,331
Investment banking	**3,261**	2,628	2,413
Revenues from consolidated investments	**346**	70	(26)
Other	**1,270**	1,111	818
	17,494	16,039	14,976
Interest and dividend revenues	**14,973**	11,669	13,210
Less interest expense	**10,444**	7,840	9,871
Net interest profit	**4,529**	3,829	3,339
Total Net Revenues	**22,023**	19,868	18,315
Non-Interest Expenses			
Compensation and benefits	**10,596**	9,810	10,677
Communications and technology	**1,461**	1,457	1,741
Occupancy and related depreciation	**893**	889	909
Brokerage, clearing, and exchange fees	**773**	676	688
Professional fees	**705**	580	551
Advertising and market development	**533**	429	540
Expenses of consolidated investments	**231**	68	(8)
Office supplies and postage	**203**	197	258
Other	**792**	689	568
Net recoveries related to September 11	**–**	(147)	(212)
Research and other settlement-related expenses	**–**	–	291
Total Non-Interest Expenses	**16,187**	14,648	16,003
Earnings Before Income Taxes	**5,836**	5,220	2,312
Income Tax Expense	**1,400**	1,384	604
Net Earnings	**$ 4,436**	$ 3,836	$ 1,708
Preferred Stock Dividends	**41**	39	38
Net Earnings Applicable to Common Stockholders	**$ 4,395**	$ 3,797	$ 1,670
Earnings Per Common Share			
Basic	**$ 4.81**	$ 4.22	$ 1.94
Diluted	**$ 4.38**	$ 3.87	$ 1.77

See Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS

(dollars in millions, except per share amounts)

	Dec. 31, 2004	Dec. 26, 2003
Assets		
Cash and cash equivalents	**$ 21,220**	$ 10,150
Cash and securities segregated for regulatory purposes or deposited with clearing organizations	**23,082**	15,171
Securities financing transactions		
Receivables under resale agreements	**78,853**	61,006
Receivables under securities borrowed transactions	**94,498**	56,072
	173,351	117,078
Trading assets, at fair value *(includes securities pledged as collateral that can be sold or repledged of $44,487 in 2004 and $26,220 in 2003)*		
Contractual agreements	**41,979**	37,189
Corporate debt and preferred stock	**32,793**	22,394
Non-U.S. governments and agencies	**29,887**	15,991
Mortgages, mortgage-backed, and asset-backed securities	**28,010**	20,508
Equities and convertible debentures	**27,644**	23,170
U.S. Government and agencies	**13,861**	10,408
Municipals and money markets	**6,538**	4,577
Commodities and related contracts	**1,238**	7
	181,950	134,244
Investment securities *(includes securities pledged as collateral of $3,806 in 2004 and $8,724 in 2003)*	**77,850**	74,795
Securities received as collateral	**11,903**	9,156
Other receivables		
Customers *(net of allowance for doubtful accounts of $51 in 2004 and $60 in 2003)*	**45,663**	36,955
Brokers and dealers	**12,109**	7,346
Interest and other	**13,954**	11,187
	71,726	55,488
Loans, notes, and mortgages *(net of allowance for loan losses of $283 in 2004 and $318 in 2003)*	**53,262**	50,993
Separate accounts assets	**18,641**	17,034
Equipment and facilities *(net of accumulated depreciation and amortization of $5,259 in 2004 and $5,054 in 2003)*	**2,508**	2,612
Goodwill and other intangible assets	**6,162**	4,814
Other assets	**6,404**	4,608
Total Assets	**$ 648,059**	$ 496,143

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CONSOLIDATED BALANCE SHEETS

(dollars in millions, except per share amounts)

	Dec. 31, 2004	Dec. 26, 2003
Liabilities		
Securities financing transactions		
Payables under repurchase agreements	**$ 154,796**	$ 96,006
Payables under securities loaned transactions	**22,236**	11,081
	177,032	107,087
Commercial paper and other short-term borrowings	**3,979**	5,000
Deposits	**79,746**	79,457
Trading liabilities, at fair value		
Contractual agreements	**51,158**	43,349
Non-U.S. governments and agencies	**22,271**	12,066
U.S. Government and agencies	**16,496**	15,305
Equities and convertible debentures	**15,131**	10,793
Corporate debt, municipals and preferred stock	**9,194**	7,798
Commodities and related contracts	**979**	4
	115,229	89,315
Obligation to return securities received as collateral	**11,903**	9,156
Other payables		
Customers	**40,617**	28,859
Brokers and dealers	**20,133**	19,109
Interest and other	**26,675**	22,387
	87,425	70,355
Liabilities of insurance subsidiaries	**3,158**	3,353
Separate accounts liabilities	**18,641**	17,034
Long-term borrowings	**116,484**	83,299
Long-term debt issued to TOPrS[SM] partnerships	**3,092**	3,203
Total Liabilities	**616,689**	467,259
Commitments and Contingencies		
Stockholders' Equity		
Preferred Stockholders' Equity *(2004 — 21,000 shares issued and outstanding with liquidation preference of $30,000 per share; 2003 — 42,500 shares issued and outstanding with liquidation preference of $10,000 per share)*	**630**	425
Common Stockholders' Equity		
Shares exchangeable into common stock	**41**	43
Common stock *(par value $1.33 1/3 per share; authorized: 3,000,000,000 shares; issued: 2004 — 1,098,991,806 shares and 2003 — 1,063,205,274 shares)*	**1,465**	1,417
Paid-in capital	**12,332**	10,676
Accumulated other comprehensive loss (net of tax)	**(481)**	(551)
Retained earnings	**22,485**	18,692
	35,842	30,277
Less: Treasury stock, at cost *(2004 — 170,955,057 shares; 2003 — 117,294,392 shares)*	**4,230**	1,195
Unamortized employee stock grants	**872**	623
Total Common Stockholders' Equity	**30,740**	28,459
Total Stockholders' Equity	**31,370**	28,884
Total Liabilities and Stockholders' Equity	**$ 648,059**	$ 496,143

See Notes to Consolidated Financial Statements.

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CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(dollars in millions)

	Year Ended Last Friday in December					
	Amounts			Shares		
	2004	2003	2002	**2004**	2003	2002
Preferred Stock						
Balance, beginning of year	**$ 425**	$ 425	$ 425	**42,500**	42,500	42,500
Issuances	**630**	–	–	**21,000**	–	–
Redemptions	**(425)**	–	–	**(42,500)**	–	–
Balance, end of year	**630**	425	425	**21,000**	42,500	42,500
Common Stockholders' Equity						
Shares Exchangeable into Common Stock						
Balance, beginning of year	**43**	58	62	**2,899,923**	3,911,041	4,195,407
Exchanges	**(2)**	(15)	(4)	**(117,211)**	(1,011,118)	(284,366)
Balance, end of year	**41**	43	58	**2,782,712**	2,899,923	3,911,041
Common Stock						
Balance, beginning of year	**1,417**	1,311	1,283	**1,063,205,274**	983,502,078	962,533,498
Shares issued to employees	**48**	106	28	**35,786,532**	79,703,196	20,968,580
Balance, end of year	**1,465**	1,417	1,311	**1,098,991,806**	1,063,205,274	983,502,078
Paid-in Capital						
Balance, beginning of year	**10,676**	9,102	6,764			
Employee stock plan activity	**1,656**	1,574	2,338			
Balance, end of year	**12,332**	10,676	9,102			
Accumulated Other Comprehensive Loss						
Foreign Currency Translation Adjustment (net of tax)						
Balance, beginning of year	**(301)**	(320)	(302)			
Translation adjustment	**12**	19	(18)			
Balance, end of year	**(289)**	(301)	(320)			
Net Unrealized Gains (Losses) on Available-for-Sale Securities (net of tax)						
Balance, beginning of year	**(111)**	(145)	(92)			
Net unrealized gains (losses) on available-for-sale	**30**	27	(58)			
Other adjustments[1]	**(10)**	7	5			
Balance, end of year	**(91)**	(111)	(145)			
Deferred Gains on Cash Flow Hedges (net of tax)						
Balance, beginning of year	**11**	20	36			
Net deferred gains on cash flow hedges	**–**	43	104			
Reclassification adjustment to earnings	**10**	(52)	(120)			
Balance, end of year	**21**	11	20			
Minimum Pension Liability (net of tax)						
Balance, beginning of year	**(150)**	(125)	(10)			
Net minimum pension liability adjustment	**28**	(25)	(115)			
Balance, end of year	**(122)**	(150)	(125)			
Balance, end of year	**(481)**	(551)	(570)			
Retained Earnings						
Balance, beginning of year	**18,692**	15,491	14,374			
Net earnings	**4,436**	3,836	1,708			
Preferred stock dividends declared	**(41)**	(39)	(38)			
Common stock dividends declared	**(602)**	(596)	(553)			
Balance, end of year	**22,485**	18,692	15,491			
Treasury Stock, at cost						
Balance, beginning of year	**(1,195)**	(961)	(977)	**(117,294,392)**	(116,211,158)	(119,059,651)
Shares repurchased	**(2,968)**	–	–	**(54,029,600)**	–	–
Shares issued to (reacquired from) employees[2]	**(74)**	(273)	(12)	**251,724**	(2,094,352)	2,564,127
Share exchanges	**7**	39	28	**117,211**	1,011,118	284,366
Balance, end of year	**(4,230)**	(1,195)	(961)	**(170,955,057)**	(117,294,392)	(116,211,158)
Unamortized Employee Stock Grants						
Balance, beginning of year	**(623)**	(775)	(776)			
Net issuance of employee stock grants	**(765)**	(440)	(697)			
Amortization of employee stock grants	**516**	592	697			

Other	**–**	–	1
Balance, end of year	**(872)**	(623)	(775)
Total Common Stockholders' Equity	**30,740**	28,459	23,656
Total Stockholders' Equity	**$ 31,370**	$ 28,884	$ 24,081

1 Other adjustments relate to policyholder liabilities, deferred policy acquisition costs, and income taxes.

2 Share amounts are net of reacquisitions from employees of 4,982,481 shares, 8,355,168 shares and 2,664,083 shares in 2004, 2003 and 2002, respectively.

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(dollars in millions)

	Year Ended Last Friday in December 2004	2003	2002
Net Earnings	**$ 4,436**	$ 3,836	$ 1,708
Other Comprehensive Income (Loss)			
Foreign currency translation adjustment:			
Foreign currency translation losses	**(359)**	(392)	(263)
Income tax benefit	**371**	411	245
Total	**12**	19	(18)
Net unrealized gains (losses) on investment securities available-for-sale:			
Net unrealized holding gains arising during the period	**365**	598	213
Reclassification adjustment for realized gains included in net earnings	**(335)**	(571)	(271)
Net unrealized gains (losses) on investment securities available-for-sale	**30**	27	(58)
Adjustments for:			
Policyholder liabilities	**19**	8	(16)
Deferred policy acquisition costs	**–**	(1)	1
Income tax (expense) benefit	**(29)**	–	20
Total	**20**	34	(53)
Deferred gains (losses) on cash flow hedges			
Deferred gains (losses) on cash flow hedges	**(7)**	37	94
Income tax benefit	**7**	6	10
Reclassification adjustment to earnings	**10**	(52)	(120)
Total	**10**	(9)	(16)
Minimum pension liability			
Minimum pension liability adjustment	**38**	(38)	(168)
Income tax (expense) benefit	**(10)**	13	53
Total	**28**	(25)	(115)
Total Other Comprehensive Income (Loss)	**70**	19	(202)
Comprehensive Income	**$ 4,506**	$ 3,855	$ 1,506

See Notes to Consolidated Financial Statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS

(dollars in millions)

	Year Ended Last Friday in December		
	2004	2003	2002
Cash Flows from Operating Activities			
Net Earnings	**$ 4,436**	$ 3,836	$ 1,708
Noncash items included in earnings:			
Depreciation and amortization	**506**	570	652
Stock compensation expense	**876**	998	2,042
Deferred taxes	**2**	361	(351)
Policyholder reserves	**144**	156	168
Undistributed (earnings) loss from equity investments	**(400)**	(179)	31
Other	**(48)**	(30)	112
Changes in operating assets and liabilities[1] :			
Trading assets	**(47,672)**	(22,890)	(7,280)
Cash and securities segregated for regulatory purposes or deposited with clearing organizations	**(7,615)**	(1,217)	(2,908)
Receivables under resale agreements	**(17,835)**	(406)	(5,100)
Receivables under securities borrowed transactions	**(38,426)**	71	9,387
Customer receivables	**(8,697)**	(1,619)	4,533
Brokers and dealers receivables	**(4,768)**	1,139	(1,617)
Trading liabilities	**19,272**	9,553	3,279
Payables under repurchase agreements	**58,790**	10,760	10,474
Payables under securities loaned transactions	**11,155**	3,441	(4,651)
Customer payables	**11,758**	290	(135)
Brokers and dealers payables	**1,024**	2,568	4,609
Other, net	**4,228**	2,082	4,994
Cash Provided by (used for) Operating Activities	**(13,270)**	9,484	19,947
Cash Flows from Investing Activities			
Proceeds from (payments for):			
Maturities of available-for-sale securities	**26,602**	31,345	37,891
Sales of available-for-sale securities	**27,983**	56,448	36,697
Purchases of available-for-sale securities	**(54,498)**	(81,639)	(71,183)
Maturities of held-to-maturity securities	**278**	1,541	206
Purchases of held-to-maturity securities	**(763)**	(1,479)	(303)
Loans, notes, and mortgages	**(2,234)**	(12,625)	(15,716)
Other investments and other assets	**(1,914)**	(3,623)	(1,684)
Equipment and facilities	**(402)**	(102)	(860)
Cash Used for Investing Activities	**(4,948)**	(10,134)	(14,952)
Cash Flows from Financing Activities			
Proceeds from (payments for):			
Commercial paper and other short-term borrowings	**(1,021)**	(353)	212
Deposits	**289**	(2,385)	(3,977)
Issuance and resale of long-term borrowings	**48,950**	29,139	25,493
Settlement and repurchase of long-term borrowings	**(22,796)**	(26,454)	(27,232)
Derivative financing transactions	**6,642**	584	–
Issuance of common stock	**589**	624	295
Issuance of preferred stock (net of redemptions)	**205**	–	–
Treasury stock repurchases	**(2,968)**	–	–
Other common stock transactions	**41**	69	(54)
Dividends	**(643)**	(635)	(591)
Cash Provided by (used for) Financing Activities	**29,288**	589	(5,854)
Increase (Decrease) in Cash and Cash Equivalents	**11,070**	(61)	(859)
Cash and Cash Equivalents, beginning of year	**10,150**	10,211	11,070
Cash and Cash Equivalents, end of year	**$ 21,220**	$ 10,150	$ 10,211

1 Net of effects of acquisitions and divestitures.

Supplemental Disclosures			
Cash paid for:			
Income taxes	**$ 661**	$ 205	$ 861
Interest	**10,229**	7,691	10,116

See Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NO. 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business

Merrill Lynch & Co., Inc. ("ML & Co.") and subsidiaries ("Merrill Lynch") provide investment, financing, insurance, and related services to individuals and institutions on a global basis through its broker, dealer, banking, insurance, and other financial services subsidiaries. Its principal subsidiaries include:

- Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLPF&S"), a U.S.-based broker-dealer in securities and futures commission merchant;
- Merrill Lynch International ("MLI"), a U.K.-based broker-dealer in securities and dealer in equity and credit derivatives;
- Merrill Lynch Government Securities Inc. ("MLGSI"), a U.S.-based dealer in U.S. Government securities;
- Merrill Lynch Capital Services, Inc., a U.S.-based dealer in interest rate, currency, credit derivatives and commodities;
- Merrill Lynch Investment Managers, LP, a U.S.-based asset management company;
- Merrill Lynch Investment Managers Limited, a U.K.-based asset management company;
- Merrill Lynch Bank USA ("MLBUSA"), a U.S.-based FDIC-insured depository;
- Merrill Lynch Bank & Trust Co. ("MLB&T"), a U.S.-based FDIC-insured depository;
- Merrill Lynch International Bank Limited ("MLIB"), a U.K.-based bank;
- Merrill Lynch Capital Markets Bank Limited ("MLCMB"), an Ireland-based bank;
- Merrill Lynch Mortgage Capital, Inc., a U.S.-based dealer in mortgage securities;
- Merrill Lynch Japan Securities Co., Ltd. ("MLJS"), a Japan-based broker-dealer;
- Merrill Lynch Life Insurance Company, a U.S.-based provider of life insurance and annuity products;
- ML Life Insurance Company of New York, a U.S.-based provider of life insurance and annuity products;
- Merrill Lynch Derivative Products, AG, a Switzerland-based derivatives dealer; and
- ML IBK Positions Inc., a U.S.-based entity involved in private equity and principal investing.

Services provided to clients by Merrill Lynch include:

- Securities brokerage, trading and underwriting;
- Investment banking, strategic advisory services (including mergers and acquisitions) and other corporate finance activities;
- Wealth management products and services, including financial, retirement and generational planning;
- Asset management and investment advisory and related record-keeping services;
- Origination, brokerage, dealer, and related activities in swaps, options, forwards, exchange-traded futures, other derivatives, commodities and foreign exchange products;
- Securities clearance, settlement financing services and prime brokerage;
- Equity, debt, foreign exchange and economic research;
- Private equity and other principal investing activities;
- Banking, trust, and lending services, including deposit-taking, consumer and commercial lending, including mortgage loans, and related services; and
- Insurance and annuities sales and annuity underwriting services.

Basis of Presentation

The Consolidated Financial Statements include the accounts of Merrill Lynch, whose subsidiaries are generally controlled through a majority voting interest but may be controlled by means of a significant minority ownership, by contract, lease or otherwise. In certain cases, Merrill Lynch subsidiaries (i.e., Variable Interest Entities ("VIEs")) may also be consolidated based on a risks and rewards approach as required by Financial Accounting Standards Board ("FASB") revised Interpretation No. 46 ("FIN 46R"). See Note 6 to the Consolidated Financial Statements for further discussion regarding the consolidation of VIEs.

The Consolidated Financial Statements are presented in accordance with accounting principles generally accepted in the United States of America, which include industry practices. Intercompany transactions and balances have been eliminated.

Certain reclassifications and format changes have been made to prior year amounts to conform to the current year presentation. Certain brokerage, clearing and exchange fees were reclassified and are now netted against related fee income in other revenues. Prior periods have been reclassified and the impact for 2003 and 2002 was $46 million and $39 million, respectively. Certain charges related to trading errors, that were previously recorded in other expenses, were reclassified, and are now netted against revenues. Prior periods have been reclassified and the impact for 2003 and 2002 was $50 million and $80 million, respectively.

The Consolidated Financial Statements are presented in U.S. dollars. Many non-U.S. subsidiaries have a functional currency (i.e., the currency in which activities are primarily conducted) that is other than the U.S. dollar, often the currency of the country in which a subsidiary is domiciled. Subsidiaries' assets and liabilities are translated to U.S. dollars at year-end exchange rates, while revenues and expenses are translated at average exchange rates during the year. Adjustments that result from translating amounts in a subsidiary's functional currency and related hedging, net of related tax effects, are reported in stockholders' equity as a component of accumulated other comprehensive loss. All other translation adjustments are included in earnings. Merrill Lynch uses derivatives to manage the currency exposure arising from activities in non-U.S. subsidiaries. (See the Derivatives section for additional information on accounting for derivatives.)

Use of Estimates

In presenting the Consolidated Financial Statements, management makes estimates regarding:

- Valuations of certain trading inventory and investment securities
- The outcome of litigation
- Cash flow projections used in determining whether variable interest entities should be consolidated
- Tax reserves
- The realization of deferred tax assets
- The allowance for loan losses
- The carrying amount of goodwill
- Valuation of employee stock options
- Insurance reserves and recovery of insurance deferred acquisition costs; and
- Other matters that affect the reported amounts and disclosure of contingencies in the financial statements.

Estimates, by their nature, are based on judgment and available information. Therefore, actual results could differ from those estimates and could have a material impact on the Consolidated Financial Statements, and it is possible that such changes could occur in the near term. A discussion of certain areas in which estimates are a significant component of the amounts reported in the Consolidated Financial Statements follows:

Trading Assets and Liabilities

Securities held by a broker-dealer subsidiary are subject to specialized industry guidance as prescribed by the American Institute of Certified Public Accountants ("AICPA") Audit and Accounting Guide, Brokers and Dealers in Securities. Securities held by broker-dealer subsidiaries are accounted for at fair value with realized and unrealized gains and losses reported in earnings.

Fair values of trading securities are based on quoted market prices, pricing models (utilizing indicators of general market conditions and other economic measurements), or management's estimates of amounts to be realized on settlement, assuming current market conditions and an orderly disposition over a reasonable period of time. Estimating the fair value of certain illiquid securities requires significant management judgment. Merrill Lynch values trading security assets at the institutional bid price and recognizes bid-offer revenues when assets are sold. Trading security liabilities are valued at the institutional offer price and bid-offer revenues are recognized when the positions are closed.

Fair values for over-the-counter ("OTC") derivative financial instruments, principally forwards, options, and swaps, represent the present value of amounts estimated to be received from or paid to a third-party in settlement of these instruments. These derivatives are valued using pricing models based on the net present value of estimated future cash flows and directly observed prices from exchange-traded derivatives, other OTC trades, or external pricing services, while taking into account the counter-party's credit ratings, or Merrill Lynch's own credit ratings, as appropriate. Obtaining the fair value for OTC derivatives contracts requires the use of management judgment and estimates.

New and/or complex instruments may have immature or limited markets. As a result, the pricing models used for valuation often incorporate significant estimates and assumptions, which may impact the results of operations reported in the financial statements. For long-dated and illiquid contracts, extrapolation methods are applied to observed market data in order to estimate inputs and assumptions that are not directly observable. This enables Merrill Lynch to mark-to-market all positions consistently when only a subset of prices are directly observable. Values for OTC derivatives are verified using observed information about the costs of hedging the risk and other trades in the market. As the markets for these products develop, Merrill Lynch continually refines its pricing models based on experience to correlate more closely to the market risk of these instruments. Unrealized gains at the inception of the derivative contract are not recognized unless the valuation model incorporates significant observable market inputs.

Valuation adjustments are an integral component of the fair valuation process and are taken for individual positions where either the sheer size of the trade or other specific features of the trade or particular market (such as counterparty credit quality or concentration or market liquidity) requires the valuation to be based on more than simple application of the pricing models.

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Valuation of Investment Securities

Merrill Lynch's non-broker-dealer subsidiaries follow the guidance prescribed by Statement of Financial Accounting Standards ("SFAS") No. 115, *Accounting for Certain Investments in Debt and Equity Securities,* when accounting for investments in debt and publicly traded equity securities. Merrill Lynch classifies those debt securities that it has the intent and ability to hold to maturity as held-to-maturity securities, which are carried at cost unless a decline in value is deemed other than temporary, in which case the carrying value is reduced. Those securities that are bought and held principally for the purpose of selling them in the near term are classified as trading and marked to fair value through earnings. All other qualifying securities are classified as available-for-sale with unrealized gains and losses reported in accumulated other comprehensive loss. Any unrealized losses deemed other than temporary are included in current period earnings and removed from accumulated other comprehensive loss.

Investment securities are reviewed for other-than-temporary impairment on a quarterly basis. The determination of other-than-temporary impairment will often depend on the severity and duration of the decline in value of the investment securities, and requires judgment. To the extent that Merrill Lynch has the ability and intent to hold the investments for a period of time sufficient for a forecasted market price recovery up to or beyond the cost of the investment, no impairment charge will be recognized.

Restricted Investments

Merrill Lynch holds investments that may have quoted market prices but that are subject to restrictions (e.g., requires consent of the issuer or other investors to sell) that may limit Merrill Lynch's ability to realize the quoted market price. Restricted investments may be recorded in either trading assets or investment securities. Merrill Lynch estimates the fair value of these securities taking into account the restrictions using pricing models based on projected cash flows, earnings multiples, comparisons based on similar transactions, and/or review of underlying financial conditions and other market factors. Such estimation may result in a fair value for a security that is less than its quoted market price.

Legal and Other Reserves

Merrill Lynch is a party in various actions, some of which involve claims for substantial amounts. Amounts are accrued for the financial resolution of claims that have either been asserted or are deemed probable of assertion if, in the opinion of management, it is both probable that a liability has been incurred and the amount of the liability can be reasonably estimated. In many cases, it is not possible to determine whether a liability has been incurred or to estimate the ultimate or minimum amount of that liability until years after the litigation has been commenced, in which case no accrual is made until that time. Accruals are subject to significant estimation by management with input from outside counsel.

Variable Interest Entities

In the normal course of business, Merrill Lynch enters into a variety of transactions with VIEs. The applicable accounting guidance requires Merrill Lynch to perform a qualitative and quantitative analysis of a VIE to determine whether it is the primary beneficiary of the VIE and therefore must consolidate the VIE. In performing this analysis, Merrill Lynch makes assumptions regarding future performance of assets held by the VIE, taking into account estimates of credit risk, estimates of the fair value of assets, timing of cash flows, and other significant factors. It should also be noted that although a VIE's actual results may differ from projected outcomes, a revised consolidation analysis is not required.

Income Taxes

Deferred tax assets and liabilities are recorded for the effects of temporary differences between the tax basis of an asset or liability and its reported amount in the financial statements. Merrill Lynch assesses its ability to realize deferred tax assets primarily based on the earnings history and future earnings potential of the legal entities to which the deferred tax assets are attributable as discussed in SFAS No. 109, *Accounting for Income Taxes*. See Note 14 to the Consolidated Financial Statements for further discussion of income taxes.

Valuation of Loans and Allowance for Loan Losses

The fair value of loans made in connection with commercial lending activity, consisting primarily of senior debt, is estimated using discounted cash flows. Merrill Lynch's estimate of fair value for other loans, notes, and mortgages is determined based on the individual loan characteristics. For certain homogeneous categories of loans, including residential mortgages and home equity loans, fair value is estimated using market price quotations or previously executed transactions for securities backed by similar loans, adjusted for credit risk and other individual loan characteristics. For Merrill Lynch's variable-rate loan receivables, carrying value approximates fair value.

The provision for loan losses is based on management's estimate of the amount necessary to maintain the allowance at a level adequate to absorb probable incurred loan losses. Management's estimate of loan losses is influenced by many factors, including adverse situations that may affect the borrower's ability to repay, current economic conditions, prior loan loss experience, and the estimated fair value of any underlying collateral. The fair value of collateral is generally determined by third-party appraisals in the case of residential mortgages or quoted market prices for securities, or estimates of fair value for other assets. Management's estimates of loan losses include considerable judgment about collectibility based on available facts and evidence at the balance sheet date, and the uncertainties inherent in those assumptions. While management uses the best information available on which to base its estimates, future adjustments to the allowance may be

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necessary based on changes in the economic environment or variances between actual results and the original assumptions used by management.

Impairment of Goodwill

SFAS No. 142, *Goodwill and Other Intangible Assets,* requires Merrill Lynch to make certain subjective and complex judgments, including assumptions and estimates used to determine the fair value of its reporting units. The majority of Merrill Lynch's goodwill is related to the 1997 purchase of the Mercury Asset Management Group and resides in the Merrill Lynch Investment Managers ("MLIM") segment. The fair value of the MLIM segment is measured based on a discounted expected future cash flows approach. The estimates used in preparing these cash flows are based upon historical experience, current knowledge, and available external information about future trends.

Valuation of Employee Stock Options

The fair value of stock options is estimated as of the grant date based on a Black-Scholes option pricing model. The Black-Scholes model takes into account the exercise price and expected life of the option, the current price of the underlying stock and its expected volatility, expected dividends, and the risk-free interest rate for the expected term of the option. Judgment is required in determining certain of the inputs to the model. The expected life of the option is based on an analysis of historical employee exercise behavior. The expected volatility is based on Merrill Lynch's monthly stock price volatility for the past five years, which coincides with the expected life. The fair value of the option estimated at grant date is not adjusted for subsequent changes in assumptions.

Insurance Reserves and Deferred Acquisition Costs Relating to Insurance Policies

Merrill Lynch records reserves related to life insurance and annuity contracts. Included in these reserves is a mortality reserve that is determined by projecting expected guaranteed benefits under multiple scenarios. Merrill Lynch uses estimates for mortality and surrender assumptions based on actual and projected experience for each contract type. These estimates are consistent with the estimates used in the calculation of deferred policy acquisition expenses.

Merrill Lynch records deferred insurance policy acquisition costs that are amortized in proportion to the estimated future gross profits for each group of contracts over the anticipated life of the insurance contracts, utilizing an effective yield methodology. These future gross profit estimates are subject to periodic evaluation by Merrill Lynch, with necessary revisions applied against amortization to date.

Fair Value

At December 31, 2004, $587 billion, or 91%, of Merrill Lynch's total assets and $594 billion, or 96%, of Merrill Lynch's total liabilities were carried at fair value or at amounts that approximate fair value. At December 26, 2003, $440 billion, or 89%, of Merrill Lynch's total assets and $449 billion, or 96%, of Merrill Lynch's total liabilities were carried at fair value or at amounts that approximate such values. Financial instruments that are carried at fair value include cash and cash equivalents, cash and securities segregated for regulatory purposes or deposited with clearing organizations, trading assets and liabilities, securities received as collateral and obligation to return securities received as collateral, available-for-sale and trading securities included in investment securities, certain investments of insurance subsidiaries and certain other investments.

Financial instruments recorded at amounts that approximate fair value include receivables under resale agreements, receivables under securities borrowed transactions, other receivables, payables under repurchase agreements, payables under securities loaned transactions, commercial paper and other short-term borrowings, deposits, and other payables. The fair value of these items is not materially sensitive to shifts in market interest rates because of the short-term nature of many of these instruments and/or their variable interest rates.

The fair value amounts for financial instruments are disclosed in each respective footnote.

Revenue Recognition

Asset management and portfolio service fees consist of:

- Management fees, which represent a percentage of client assets under management, and are accrued ratably over the service period;
- Account fees, which generally represent a fixed annual charge and are recognized ratably over the period in which services are provided; and
- Performance fees, which are earned if investment performance exceeds predetermined levels, and are generally accrued based on performance to date.

Commissions revenue includes commissions, mutual fund distribution fees and contingent deferred sale charge revenue, which are all accrued as earned. Commissions revenue also includes mutual fund redemption fees, which are recognized at the time of redemption. Certain compensations costs related to sales of rear-load open-end mutual funds are deferred to match revenue recognition. Amortization of deferred amounts is accelerated when it is determined that deferred expenses cannot be recovered.

Principal transactions revenues includes both realized and unrealized gains and losses on trading assets and trading liabilities. Realized gains and losses are recognized on a trade date basis.

Investment banking revenues includes underwriting revenues and fees for merger and acquisition advisory services, which are accrued when services for the transactions are substantially completed. Transaction-related expenses are deferred to match revenue recognition. Investment banking and advisory services revenues are presented net of transaction-related expenses.

Revenues from consolidated investments and expenses of consolidated investments are related to investments that are consolidated under SFAS No. 94, *Consolidation of All Majority-Owned Subsidiaries*, and FASB Interpretation No. 46, *Consolidation of*

Variable Interest Entities . Expenses of consolidated investments primarily consist of cost of goods sold related to manufacturing entities that are consolidated and are part of Merrill Lynch's private equity and principal investment activities, as well as minority interest expense.

Balance Sheet Captions

The following are policies related to specific balance sheet captions. Refer to the related footnotes for additional information.

Cash and Cash Equivalents

Merrill Lynch defines cash equivalents as short-term, highly liquid securities, federal funds sold, and interest-earning deposits with original maturities of 90 days or less, that are not used for trading purposes.

Cash and Securities Segregated for Regulatory Purposes or Deposited with Clearing Organizations

Cash and securities segregated for regulatory purposes or deposited with clearing organizations include cash and securities segregated in compliance with federal and other regulations and represent funds deposited by customers and funds accruing to customers as a result of trades or contracts. Also included are funds segregated in a special reserve account for the benefit of customers under Rule 15c3-3 of the Securities and Exchange Commission ("SEC"), as well as funds segregated and held in separate accounts in accordance with Section 4d(2) and Regulation 30.7 of the Commodity Exchange Act.

Securities Financing Transactions

Merrill Lynch enters into repurchase and resale agreements and securities borrowed and loaned transactions to accommodate customers (also referred to as "matched-book transactions"), finance firm inventory positions, obtain securities for settlement and earn residual interest rate spreads. Merrill Lynch also engages in securities financing for customers through margin lending (see the customer receivables and payables section).

Resale and repurchase agreements are accounted for as collateralized financing transactions and are recorded at their contractual amounts plus accrued interest. Merrill Lynch's policy is to obtain possession of collateral with a market value equal to or in excess of the principal amount loaned under resale agreements. To ensure that the market value of the underlying collateral remains sufficient, collateral is valued daily, and Merrill Lynch may require counterparties to deposit additional collateral or return collateral pledged, when appropriate. Substantially all repurchase and resale activities are transacted under master netting agreements that give Merrill Lynch the right, in the event of default, to liquidate collateral held and to offset receivables and payables with the same counterparty. Merrill Lynch offsets certain repurchase and resale agreement balances with the same counterparty on the Consolidated Balance Sheets.

Merrill Lynch may use securities received as collateral for resale agreements to satisfy regulatory requirements such as Rule 15c3-3 of the SEC.

Interest rate swaps may be used to modify the interest rate characteristics of long-term resale and repurchase agreements. (See the Derivatives section for additional information on accounting policy for derivatives.)

Securities borrowed and loaned transactions are recorded at the amount of cash collateral advanced or received. Securities borrowed transactions require Merrill Lynch to provide the counterparty with collateral in the form of cash, letters of credit, or other securities. Merrill Lynch receives collateral in the form of cash or other securities for securities loaned transactions. For these transactions, the fees received or paid by Merrill Lynch are recorded as interest revenue or expense. On a daily basis, Merrill Lynch monitors the market value of securities borrowed or loaned against the collateral value, and Merrill Lynch may require counterparties to deposit additional collateral or return collateral pledged, when appropriate. Although substantially all securities borrowing and lending activities are transacted under master netting agreements, such receivables and payables with the same counterparty are not offset on the Consolidated Balance Sheets.

All firm-owned securities pledged to counterparties where the counterparty has the right, by contract or custom, to sell or repledge the securities are disclosed parenthetically in trading assets and investment securities on the Consolidated Balance Sheets.

In transactions where Merrill Lynch acts as the lender in a securities lending agreement and receives securities that can be pledged or sold as collateral, it recognizes on the Consolidated Balance Sheets an asset, representing the securities received (securities received as collateral), and a liability for the same amount, representing the obligation to return those securities (obligation to return securities received as collateral).

Trading Assets and Liabilities

Merrill Lynch's trading activities consist primarily of securities brokerage, trading, and underwriting; derivatives dealing and brokerage; commodities trading and brokerage; and securities financing transactions. Trading assets and trading liabilities consist of cash instruments (such as securities) and derivative instruments used for trading purposes or for managing risk exposures in other trading inventory. See the Derivatives section for additional information on accounting policy for derivatives.

Trading securities and other cash instruments (e.g., loans held for trading purposes) are recorded on a trade date basis at fair value. Included in trading liabilities are securities that Merrill Lynch has sold but did not own and will therefore be obligated to purchase at a future date ("short sales"). Changes in fair value (i.e., unrealized gains and losses) are recognized as principal transactions revenues in the current period. Realized gains and losses and any related interest amounts are included in principal transactions revenues and interest revenues and expenses, depending on the nature of the instrument.

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Fair values of trading assets and liabilities are based on quoted market prices, pricing models (utilizing indicators of general market conditions or other economic measurements), or management's best estimates of amounts to be realized on settlement, assuming current market conditions and an orderly disposition over a reasonable period of time. As previously noted, estimating the fair value of certain trading assets and liabilities requires significant management judgment.

Derivatives

A derivative is an instrument whose value is "derived" from an underlying instrument or index such as a future, forward, swap, or option contract, or other financial instrument with similar characteristics. Derivative contracts often involve future commitments to exchange interest payment streams or currencies based on a notional or contractual amount (e.g., interest rate swaps or currency forwards) or to purchase or sell other financial instruments at specified terms on a specified date (e.g., options to buy or sell securities or currencies).

Accounting for Derivatives and Hedging Activities

SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities,* as amended, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts ("embedded derivatives") and for hedging activities. SFAS No. 133 requires that an entity recognize all derivatives as either assets or liabilities in the Consolidated Balance Sheets and measure those instruments at fair value. (See section below for additional information regarding the valuation of derivatives.) The fair value of all derivatives is recorded on a net-by-counterparty basis on the Consolidated Balance Sheets where management believes a legal right of setoff exists under an enforceable netting agreement.

The accounting for changes in fair value of a derivative instrument depends on its intended use and if it is designated and qualifies as an accounting hedging instrument.

Derivatives Entered into in a Dealing Capacity

Merrill Lynch enters into derivatives in a dealing capacity to provide them to clients, and enters into them for proprietary trading and financing strategies to manage its risk exposures arising from trading assets and liabilities. As a result of these hedging techniques, a significant portion of trading assets and liabilities represents hedges of other trading positions. Derivatives entered into in a dealing capacity are recognized at fair value on the Consolidated Balance Sheets as trading assets and liabilities in contractual agreements and the change in fair value is reported in current period earnings as principal transactions revenues.

Derivatives Entered into in a Non-Dealing Capacity

Merrill Lynch also enters into derivatives in a non-dealing capacity, in order to manage its risk exposures arising from non-trading assets and liabilities as follows:

1. Merrill Lynch routinely issues debt in a variety of maturities and currencies to achieve the lowest cost financing possible. Merrill Lynch uses derivative transactions to more closely match the duration of these borrowings to the duration of the assets being funded to minimize interest rate risk. Merrill Lynch also enters into currency swaps to ensure that non-U.S. dollar-denominated assets are funded with like-currency-denominated liabilities (to the extent that the currency cannot be sourced more efficiently through a direct debt issuance). Derivatives used most frequently include swap agreements that:
   - Convert fixed-rate interest payments into variable payments
   - Change the underlying interest rate basis or reset frequency
   - Convert non-U.S. dollar payments into U.S. dollars.
2. Merrill Lynch enters into hedges on marketable investment securities to manage the interest rate risk, currency risk, and net duration of its investment portfolio.
3. Merrill Lynch enters into fair value hedges of fixed rate resale and repurchase agreements to manage the interest rate risk of these assets and liabilities.
4. Merrill Lynch uses foreign-exchange forward contracts, foreign-exchange options, currency swaps, and foreign-currency-denominated debt to hedge its net investments in foreign operations. These derivatives and cash instruments are used to mitigate the impact of changes in exchange rates.

Derivatives entered into by Merrill Lynch in a non-dealing capacity used to hedge its funding, marketable investment securities and net investments in foreign subsidiaries are reported at fair value in other assets or interest and other payables in the Consolidated Balance Sheets at December 31, 2004 and December 26, 2003.

Derivatives entered into in a non-dealing capacity that qualify as accounting hedges under the guidance in SFAS No. 133 are designated, on the date they are entered into, as either:

1. A hedge of the fair value of a recognized asset or liability ("fair value" hedge). Changes in the fair value of derivatives that are designated and qualify as fair value hedges of interest rate risk, along with the gain or loss on the hedged asset or liability that is attributable to the hedged risk, are recorded in current period earnings as interest revenue or expense.
2. A hedge of the variability of cash flows to be received or paid related to a recognized asset or liability ("cash flow" hedge). Changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recorded in accumulated other comprehensive loss until earnings are affected by the variability of cash flows of the hedged asset or liability (e.g., when periodic interest accruals on a variable-rate asset or liability are recorded in earnings).

3. A hedge of a net investment in a foreign operation. Changes in the fair value of derivatives that are designated and qualify as hedges of a net investment in a foreign operation are recorded in the foreign currency translation adjustment account within accumulated other comprehensive loss. Changes in the fair value of the hedge instruments that are associated with the difference between the spot translation rate and the forward translation rate are recorded in current period earnings.

Merrill Lynch formally assesses, both at the inception of the hedge and on an ongoing basis, whether the hedging derivatives are highly effective in offsetting changes in fair value or cash flows of hedged items. When it is determined that a derivative is not highly effective as a hedge, Merrill Lynch discontinues hedge accounting. Under the provisions of SFAS No. 133, 100% hedge effectiveness is assumed for those derivatives whose terms match the terms of the asset or liability being hedged and that otherwise meet the conditions of SFAS No. 133 "short-cut method."

As noted above, Merrill Lynch enters into fair value hedges of interest rate exposure associated with certain investment securities and debt issuances. Merrill Lynch uses interest rate swaps to hedge this exposure. Hedge effectiveness testing is required for certain of these hedging relationships. When assessing hedge effectiveness, there are no attributes of the derivatives used to hedge the fair value exposure that are excluded from the assessment. In addition, the amount of hedge ineffectiveness on fair value hedges reported in earnings was not material for all periods presented.

The majority of deferred net gains (losses) on derivative instruments designated as cash flow hedges that were in accumulated other comprehensive loss at December 31, 2004 are expected to be reclassified into earnings over the next three years. The amount of ineffectiveness related to these hedges reported in earnings was not material for all periods presented.

For the years ended 2004 and 2003, respectively, $458 million and $527 million of net losses related to non-U.S. dollar hedges of investments in non-U.S. dollar subsidiaries were included in accumulated other comprehensive loss on the Consolidated Balance Sheets. These amounts were substantially offset by net gains on the hedged investments.

Changes in the fair value of derivatives that are economically used to hedge non-trading assets and liabilities, but that do not meet the criteria in SFAS No. 133 to qualify as an accounting hedge, are reported in current period earnings as either principal transactions revenues, other revenues or expenses, or interest revenues or expenses, depending on the nature of the transaction. In certain instances foreign exchange contracts are used to economically hedge foreign-denominated assets or liabilities that are translated at the spot rate. For these hedges, the fair value associated with the difference between the spot translation rate and the contracted forward translation rate relates to the time value of money and is therefore reflected in interest expense. The revaluation of the contract related to changes in the spot rate is recorded in other expenses.

Embedded Derivatives

Merrill Lynch issues debt and certificates of deposit whose coupons or repayment terms are linked to the performance of equity or other indices (e.g., S&P 500) or baskets of securities. The contingent payment components of these obligations may meet the definition in SFAS No. 133 of an "embedded derivative." These debt instruments are assessed to determine if the embedded derivative requires separate reporting and accounting, and if so, the embedded derivative is accounted for at fair value and reported in long-term borrowings or deposits on the Consolidated Balance Sheets along with the debt obligation. Changes in the fair value of the embedded derivative and related economic hedges are reported in interest expense. Beginning in 2004, in accordance with SEC guidance, Merrill Lynch amortizes any upfront profit associated with the embedded derivative into income as a yield adjustment over the life of the related debt instrument or certificate of deposit. Separating an embedded derivative from its host contract requires careful analysis, judgment, and an understanding of the terms and conditions of the instrument. The risk exposures in embedded derivatives are economically hedged with cash instruments and/or other non-trading derivatives reported at fair value.

Merrill Lynch may also purchase financial instruments that contain embedded derivatives. These instruments may be part of either trading inventory or trading marketable investment securities. These instruments are generally accounted for at fair value in their entirety; the embedded derivative is not separately accounted for, and all changes in fair value are reported in principal transactions revenues.

Derivatives that Contain a Significant Financing Element

In the ordinary course of trading activities, Merrill Lynch enters into certain transactions that are documented as derivatives where a significant cash investment is made by one party. These transactions can be in the form of simple interest rate swaps where the fixed leg is prepaid or may be in the form of equity-linked or credit-linked transactions where the initial investment equals the notional amount of the derivative. In accordance with SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities,* certain derivative instruments entered into or modified after June 30, 2003 that contain a significant financing element at inception and where Merrill Lynch is deemed to be the borrower, are included in financing activities in the Consolidated Statements of Cash Flows. Prior to July 1, 2003, the activity associated with such derivative instruments is included in operating activities in the Consolidated Statements of Cash Flows. In addition, the cash flows from all other derivative transactions that do not contain a significant financing element at inception are included in operating activities.

Valuation of Derivatives

Fair values for certain exchange-traded derivatives, principally futures and certain options, are based on quoted market prices. Fair values for OTC derivative financial instruments, principally forwards, options and commodity options, and swaps, represent amounts estimated to be received from or paid to a third party in settlement of these instruments. These derivatives are valued using pricing models based on the net present value of estimated future cash flows and directly observed prices from exchange-traded derivatives, other OTC trades, or external pricing services, while taking into account the counterparty's credit ratings, or Merrill Lynch's own credit ratings, as appropriate.

New and/or complex instruments may have immature or limited markets. As a result, the pricing models used for valuation often incorporate significant estimates and assumptions, which may impact the level of precision in the financial statements. For long-dated and illiquid contracts, extrapolation methods are applied to observed market data in order to estimate inputs and assumptions that are not directly observable. This enables Merrill Lynch to mark all positions consistently when only a subset of prices are directly observable. Values for OTC derivatives are verified using observed information about the costs of hedging out the risk and other trades in the market. Unrealized gains for these instruments at the inception of the contract are not recognized unless significant inputs to the valuation model are observable in the market. As the markets for these products develop, Merrill Lynch continually refines its pricing models based on experience to correlate more closely to the market risk of these instruments.

Valuation adjustments are an integral component of the mark-to-market process and are taken for individual positions where either the sheer size of the trade or other specific features of the trade or particular market (such as counterparty credit quality or concentration or market liquidity) requires the valuation to be based on more than the simple application of the pricing models.

Risk Management of Derivatives

Derivative activity is subject to Merrill Lynch's overall risk management policies and procedures. In the course of conducting its business operations, Merrill Lynch is exposed to a variety of risks. These risks include market, credit, liquidity, operational, and other risks that are material and require comprehensive controls and oversight. (See Note 5, Market Risk and Credit Risk sections.) The Global Liquidity and Risk Management Group ("GLRM"), along with other control units, ensures that these risks are properly identified, monitored, and managed throughout Merrill Lynch. To accomplish this, GLRM has established a risk management process that includes:

- A formal risk governance organization that defines the oversight process and its components;
- A regular review of the entire risk management process by the Audit Committee of the Board of Directors;
- Clearly defined risk management policies and procedures supported by a rigorous analytic framework;
- Close communication and coordination between the business, executive, and risk functions while maintaining strict segregation of responsibilities, controls, and oversight;
- Clearly articulated risk tolerance levels as defined by a group composed of executive management that are regularly reviewed to ensure that Merrill Lynch's risk-taking is consistent with its business strategy, capital structure, and current and anticipated market conditions.

The risk management process, combined with GLRM's personnel and analytic infrastructure, works to ensure that Merrill Lynch's risk tolerance is well-defined and understood by the firm's risk-takers as well as by its executive management. Other groups, including Corporate Audit, Finance, and the Office of the General Counsel, partner with GLRM to establish this overall risk management control process. While no risk management system can ever be absolutely complete, the goal of GLRM is to make certain that risk-related losses occur within acceptable, predefined levels.

Merrill Lynch documents its risk management objectives and strategies for undertaking various hedge transactions. The risk management objectives and strategies are monitored and managed by GLRM in accordance with established risk management policies and procedures that include risk tolerance levels.

Investment Securities

Investment securities consist of marketable investment securities, investments of Merrill Lynch insurance subsidiaries, and other investments.

Marketable Investment Securities

Merrill Lynch's non-broker-dealer subsidiaries hold debt and equity investments, which are primarily classified as available-for-sale.

Debt and marketable equity securities classified as available-for-sale are reported at fair value. Unrealized gains or losses on these securities are reported in stockholders' equity as a component of accumulated other comprehensive loss, net of income taxes and other related items. However, to the extent that Merrill Lynch enters into interest rate swaps to hedge the interest rate exposure of certain available-for-sale investment securities, the gain or loss on the derivative instrument, as well as the offsetting loss or gain on the investment security, are recorded in current period earnings as interest revenue or expense. (Refer to the Derivatives section for additional information.) Any unrealized losses deemed other than temporary are included in current period earnings.

Debt securities that Merrill Lynch has the positive intent and ability to hold to maturity are classified as held-to-maturity. These investments are recorded at amortized cost unless a decline in value is deemed other than temporary, in which case the carrying value is reduced. The amortization of premiums or accretion of discounts and any unrealized losses deemed other than temporary are included in current period earnings.

Debt and marketable equity securities purchased principally for the purpose of resale in the near term are classified as trading investments and are reported at fair value. Unrealized gains or losses on these investments are included in current period earnings.

Realized gains and losses on all investment securities are included in current period earnings. For purposes of computing realized gains and losses, the cost basis of each investment sold is generally based on the average cost method.

Investments of Insurance Subsidiaries and Related Liabilities

Insurance liabilities are future benefits payable under annuity and life insurance contracts and include deposits received plus interest credited during the contract accumulation period, the present value of future payments for contracts that have annuitized, and a mortality provision for certain products. Certain policyholder liabilities are also adjusted for those investments classified as available-for-sale. Liabilities for unpaid claims consist of the mortality benefit for reported claims and an estimate of unreported claims based upon actual and projected experience for each contract type.

Substantially all security investments of insurance subsidiaries are classified as available-for-sale and recorded at fair value. These investments support Merrill Lynch's in-force, universal life-type contracts. Merrill Lynch records adjustments to deferred acquisition costs and policyholder account balances which, when combined, are equal to the gain or loss that would have been recorded if those available-for-sale investments had been sold at their estimated fair values and the proceeds reinvested at current yields. The corresponding credits or charges for these adjustments are recorded in stockholders' equity as a component of accumulated other comprehensive loss, net of applicable income taxes.

Certain variable costs related to the sale or acquisition of new and renewal insurance contracts have been deferred, to the extent deemed recoverable, and amortized over the estimated lives of the contracts in proportion to the estimated gross profit for each group of contracts.

Other Investments

Other investments primarily consist of:

- Private equity investments held by non-broker-dealer subsidiaries, which are carried at the lower of cost or net realizable value, or under the equity method depending on Merrill Lynch's ability to exercise significant influence over the investee.
- Investments economically hedging deferred compensation liabilities, which are carried at fair value, with gains and losses reported in earnings.
- Partnership investments made by Trust Originated Preferred Securities ("TOPrS^SM") trusts, which are deconsolidated trusts of Merrill Lynch used as part of general purpose funding. See Notes 4, 6 and 8 for further information on TOPrS^SM.

Other Receivables and Payables

Customer Receivables and Payables

Customer securities transactions are recorded on a settlement date basis. Receivables from and payables to customers include amounts due on cash and margin transactions, including futures contracts transacted on behalf of Merrill Lynch customers. Securities owned by customers, including those that collateralize margin or other similar transactions, are not reflected on the Consolidated Balance Sheets.

Brokers and Dealers Receivables and Payables

Receivables from brokers and dealers include amounts receivable for securities not delivered by Merrill Lynch to a purchaser by the settlement date ("fails to deliver"), deposits for securities borrowed, margin deposits, commissions, and net receivables arising from unsettled trades. Payables to brokers and dealers include amounts payable for securities not received by Merrill Lynch from a seller by the settlement date ("fails to receive"), deposits received for securities loaned, and net payables arising from unsettled trades. Brokers and dealers receivables and payables also include amounts related to futures contracts transacted on behalf of Merrill Lynch customers.

Interest and Other Receivables and Payables

Interest and other receivables include interest receivable on corporate and governmental obligations, customer or other receivables, and stock borrowed transactions. Also included are receivables from income taxes, underwriting and advisory fees, commissions and fees, and other receivables. Interest and other payables include interest payable for stock-loaned transactions, and short-term and long-term borrowings. Also included are amounts payable for employee compensation and benefits, income taxes, minority interest, non-trading derivatives, dividends, restructuring and other reserves, and other payables.

Loans, Notes, and Mortgages

Merrill Lynch's lending and related activities include loan originations, syndications, and securitizations. Loan originations include commercial and residential mortgages, loans to small- and middle-market businesses, and credit extended to individuals. Merrill Lynch also engages in secondary market loan trading and margin lending (see Trading assets and liabilities and Customer receivables and payables sections, respectively). Loans are classified for accounting purposes as loans held for investment, loans held for sale and trading loans (see Trading assets and liabilities section).

Loans held for investment purposes include some commercial loans that are syndicated and some consumer and small business loans. These loans are carried at their principal amount outstanding. An allowance for loan losses is established through provisions that are based on management's estimate of probable incurred losses. Loans are charged off against the allowance for loan losses when management determines that the loan is uncollectible. The loan loss provision related to loans held for investment is included in interest revenue in the Consolidated Statements of Earnings. In general, loans are evaluated for impairment when they are greater than 90 days past due or exhibit credit quality weakness. Loans are considered impaired when it is probable that Merrill Lynch will not be able to collect all principal and interest due from the borrower. All payments received on impaired loans are applied to principal until the principal balance has been reduced to a level where collection of the remaining recorded investment is not in doubt. Typically, when collection of principal is not in doubt, contractual interest will be credited to interest income when received.

Loans held for sale include some commercial loans that are syndicated, certain purchased automobile loans and residential mortgage loans. These loans are reported at the lower of cost or estimated fair value. For all loans held for sale held by Merrill Lynch's U.S. banks, declines in the carrying value are included in other revenues in the Consolidated Statements of Earnings. For syndicated loans, other than those held by Merrill Lynch's U.S. banks, declines in the carrying value are included in principal transactions revenues in the Consolidated Statements of Earnings.

Nonrefundable loan origination fees, loan commitment fees, and "draw down" fees received in conjunction with financing arrangements are generally deferred and recognized over the contractual life of the loan as an adjustment to the yield. If, at the outset, or any time during the term of the loan it becomes highly probable that the repayment period will be extended, the amortization is recalculated using the expected remaining life of the loan. When the loan contract does not provide for a specific maturity date, management's best estimate of the repayment period is used. At repayment of the loan, any unrecognized deferred fee is immediately recognized in earnings.

Separate Accounts Assets and Liabilities

Merrill Lynch maintains separate accounts representing segregated funds held for purposes of funding variable life and annuity contracts. The separate accounts assets are not subject to general claims of Merrill Lynch. These accounts and the related liabilities are recorded as separate accounts assets and separate accounts liabilities on the Consolidated Balance Sheets.

Absent any contract provision wherein Merrill Lynch guarantees either a minimum return or account value upon death or annuitization, the net investment income and net realized and unrealized gains and losses attributable to separate accounts assets supporting variable life and annuity contracts accrue directly to the contract owner and are not reported as revenue in the Consolidated Statements of Earnings. Mortality, policy administration and withdrawal charges associated with separate accounts products are included in revenues in the Consolidated Statements of Earnings.

Equipment and Facilities

Equipment and facilities primarily consist of technology hardware and software, leasehold improvements, and owned facilities. Equipment and facilities are reported at historical cost, net of accumulated depreciation and amortization, except for land, which is reported at historical cost.

Depreciation and amortization are computed using the straight-line method. Equipment is depreciated over its estimated useful life, while leasehold improvements are amortized over the lesser of the improvement's estimated economic useful life or the term of the lease. Maintenance and repair costs are expensed as incurred.

Included in the occupancy and related depreciation expense category was depreciation and amortization of $198 million, $209 million, and $204 million in 2004, 2003, and 2002, respectively. Depreciation and amortization recognized in the communications and technology expense category was $308 million, $361 million, and $448 million, for 2004, 2003, and 2002, respectively.

Qualifying costs incurred in the development of internal-use software are capitalized when costs exceed $5 million and are amortized over the useful life of the developed software, generally not exceeding three years.

Goodwill and Other Intangibles

In 2002, Merrill Lynch adopted SFAS No. 142. Under SFAS No. 142, goodwill and indefinite-lived intangible assets are no longer amortized. Instead, these assets are tested annually (or more frequently under certain conditions) for impairment. Other intangible assets are amortized over their useful lives.

As of December 31, 2004, goodwill and other intangible assets of $6,162 million was comprised of net goodwill of $6,035 million and net intangible assets of $127 million. There were no intangible assets that were considered to be indefinite-lived at December 31, 2004. As of December 26, 2003, goodwill and other intangible assets of $4,814 million consisted entirely of net goodwill. The increase in goodwill and other intangible assets is primarily due to the acquisition of the energy trading businesses of Entergy-Koch, LP (see Note 16 for additional information). The majority of the goodwill, and related accumulated amortization, is denominated in sterling, and as a result has changed from 2003 due to exchange rate changes. The remainder of the increase is due to additional goodwill and other intangible assets recorded for smaller acquisitions.

Accumulated amortization of goodwill and other intangible assets amounted to $1,124 million and $1,039 million at year-end 2004 and 2003, respectively. The increase is primarily due to changes in exchange rates.

Merrill Lynch has reviewed its goodwill in accordance with SFAS No. 142 and determined that the fair value of the reporting units to which goodwill relates exceeded the carrying value of such reporting units. Accordingly, no goodwill impairment loss has been recognized. The majority of the goodwill is related to the 1997 purchase of the Mercury Asset Management Group and was tested for impairment at the MLIM segment level since this business has been fully integrated into MLIM.

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Other Assets

Other assets includes unrealized gains on derivatives used to hedge Merrill Lynch's non-trading borrowing and investing activities. All of these derivatives are recorded at fair value with changes reflected in earnings or accumulated other comprehensive loss (refer to the Derivatives section for more information). Other assets also includes prepaid pension expense related to plan contributions in excess of obligations, other prepaid expenses, and other deferred charges. Refer to Note 12 to the Consolidated Financial Statements for further information.

In addition, real estate purchased for investment purposes is also included in this category. Real estate held in this category may be classified as either held and used or held for sale depending on the facts and circumstances. Real estate held and used is valued at cost, less depreciation, and real estate held for sale is valued at the lower of cost or fair value, less estimated cost to sell.

Commercial Paper and Short- and Long-Term Borrowings

Merrill Lynch's unsecured general-purpose funding is principally obtained from medium-term and long-term borrowings. Commercial paper, when issued at a discount, is recorded at the proceeds received and accreted to its par value. Long-term borrowings are carried at the principal amount borrowed, net of unamortized discounts or premiums, adjusted for the effects of fair-value hedges.

Merrill Lynch is an issuer of debt whose coupons or repayment terms are linked to the performance of equity or other indices, or a basket of securities. These debt instruments must be separated into a debt host and an embedded derivative if the derivative is not considered clearly and closely related under the criteria established in SFAS No. 133. Embedded derivatives are recorded at fair value and changes in fair value are reflected in earnings. Beginning in 2004, in accordance with SEC guidance, Merrill Lynch amortizes any upfront profit associated with the embedded derivative into income as a yield adjustment over the life of the related debt instrument or certificate of deposit. This resulted in deferred revenue, net of related amortization, of $181 million for the year ended December 31, 2004. See the Embedded Derivatives section above for additional information.

Merrill Lynch uses derivatives to manage the interest rate, currency, equity, and other risk exposures of its borrowings. See the Derivatives section for additional information on accounting policy for derivatives.

Deposits

Savings deposits are interest-bearing accounts that have no maturity or expiration date, whereby the depositor is not required by the deposit contract, but may at any time be required by the depository institution, to give written notice of an intended withdrawal not less than seven days before withdrawal is made. Time deposits are accounts that have a stipulated maturity and interest rate. Depositors holding time deposits may recover their funds prior to the stated maturity but may pay a penalty to do so.

Stock-Based Compensation

Merrill Lynch accounts for stock-based compensation in accordance with the fair value method in SFAS No. 123, *Accounting for Stock-Based Compensation.* Under the fair value recognition provisions of SFAS No. 123, stock-based compensation cost is measured at the grant date based on the value of the award and is recognized as expense over the vesting period. See Note 13 to the Consolidated Financial Statements for additional disclosures related to stock-based compensation.

Employee stock-based awards are amortized over the vesting period. The unamortized portion of the grant value for certain of these plans is reflected as a reduction of stockholders' equity in unamortized employee stock grants on the Consolidated Balance Sheets.

Income Taxes

ML & Co. and certain of its wholly owned subsidiaries file a consolidated U.S. federal income tax return. Certain other Merrill Lynch entities file tax returns in their local jurisdictions.

Merrill Lynch provides for income taxes on all transactions that have been recognized in the Consolidated Financial Statements in accordance with SFAS No. 109. Accordingly, deferred taxes are adjusted to reflect the tax rates at which future taxable amounts will likely be settled or realized. The effects of tax rate changes on future deferred tax liabilities and deferred tax assets, as well as other changes in income tax laws, are recognized in net earnings in the period during which such changes are enacted. Deferred tax assets and liabilities are included in interest and other receivables and interest and other payables, respectively, on the Consolidated Balance Sheets. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized. See Note 14 to the Consolidated Financial Statements for further information.

New Accounting Pronouncements

On December 21, 2004, the FASB issued a FASB Staff Position ("FSP"), 109-2, *Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004.* The FSP provides guidance on the impact of the new tax law's one-time deduction for qualifying repatriations of foreign earnings. The deduction can result in a lower tax rate on repatriation of certain foreign earnings. To the extent that the cumulative undistributed earnings of non-U.S. subsidiaries were permanently reinvested, no deferred U.S. federal income taxes have been provided. Merrill Lynch may elect to apply this provision to qualifying earnings repatriations in 2005. Merrill Lynch has begun an assessment of the impact of the repatriation provision, but does not

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expect to complete the assessment until after Congress or the Treasury Department provides additional clarifying language on key elements of the provision. The range of possible amounts of unremitted foreign earnings that are being considered for possible repatriation is from $0 to $4.3 billion. The related potential range of income tax effects is between $0 and $226 million.

On December 16, 2004, the FASB issued SFAS No. 123 (revised 2004), *Share-Based Payment,* a revision of SFAS No. 123, *Accounting for Stock-Based Compensation.* Merrill Lynch expects to adopt the provisions of revised SFAS No. 123 in the third quarter of 2005. The approach to accounting for share-based payments under revised SFAS No. 123 is substantially unchanged from that allowed under SFAS No. 123. Because Merrill Lynch adopted the provisions of SFAS No. 123 in the first quarter of 2004, the impact of adopting the revised SFAS No. 123 is not expected to be significant. See Note 13 to the Consolidated Financial Statements for further information on share-based compensation arrangements.

On September 30, 2004, the Emerging Issues Task Force ("EITF") finalized its previous consensus regarding Issue 04-8 ("EITF 04-8"), *The Effect of Contingently Convertible Debt on Diluted Earnings Per Share.* The guidance in this Issue requires that contingently convertible instruments that are, upon conversion, settleable in shares of the issuer's common stock be included in diluted earnings per share computations (if dilutive) regardless of whether the market price trigger has been met.

In December of 2004, Merrill Lynch initiated an exchange offer of one of its contingent convertible issuances ("floating-rate LYONs®") for a new convertible instrument, which will settle partly in cash and partly in stock. More specifically, the accreted principal amount will settle in cash and the "in the money" amount of the conversion option will settle in stock. Additionally, in December 2004, Merrill Lynch repurchased $2.9 billion face amount of its fixed-rate LYONs®. Only those shares associated with floating-rate LYONs® that were not exchanged, and the fixed-rate LYONs® that were not repurchased, which each continue to be settled exclusively in shares upon conversion, have been included in current and prior periods' diluted earnings per share.

Merrill Lynch adopted the provisions of EITF 04-8 during the fourth quarter of 2004, which required restatement of prior periods' diluted earnings per share. As a result of the adoption of EITF 04-8, diluted shares outstanding increased by approximately 3.2 million shares in 2004 and 2003. Diluted earnings per share was reduced by $.01 in 2004 and 2003. See Note 8 to the Consolidated Financial Statements for additional information on LYONs®.

On June 30, 2004, the EITF reached a consensus on Issue 02-14, *Whether the Equity Method of Accounting Applies When an Investor Does Not Have an Investment in Voting Stock of an Investee but Exercises Significant Influence through Other Means.* The consensus reached indicates that in situations where an investor has the ability to exercise significant influence over the investee, an investor should apply the equity method of accounting only when it has either common stock or "in-substance" common stock of a corporation. The guidance prohibits the application of the equity method in instances where an investment is neither common stock nor "in-substance" common stock. Merrill Lynch adopted the new guidance in the fourth quarter of 2004 on a prospective basis, and as a result, has adopted the cost method of accounting for an investment to which the equity method of accounting had previously been applied. Under the equity method of accounting, Merrill Lynch recognized cumulative $320 million in other revenues related to this investment over the period from the third quarter of 2003 to the third quarter of 2004. Had Merrill Lynch continued to apply the equity method of accounting, other revenues would have been $23 million higher, or $.01 per diluted share, in the fourth quarter of 2004.

On May 19, 2004, the FASB issued FSP 106-2, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003,* which supersedes FSP 106-1 of the same title issued in January 2004. FSP 106-2 provides guidance on accounting for the effects of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 ("the Act") that was signed into law on December 8, 2003. The Act allows for a tax-free government subsidy to employers providing "actuarially equivalent" prescription drug benefits to its Medicare eligible retirees. Management concluded that the benefits provided under Merrill Lynch's plan are "actuarially equivalent" to Medicare Part D and qualify for the subsidy provided by the Act. Effective for the third quarter of 2004, Merrill Lynch adopted FSP 106-2 using the prospective application method. As a result, Merrill Lynch's accumulated postretirement benefit obligation has been reduced by approximately $45 million and the net periodic postretirement benefit cost for the third and fourth quarters of 2004 decreased by $2.6 million.

In March 2004, the EITF reached a final consensus on Issue 03-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments.* EITF 03-1 requires that when the fair value of an investment security is less than its carrying value, an impairment exists for which the determination must be made as to whether the impairment is other-than-temporary. The EITF 03-1 impairment model applies to all investment securities accounted for under SFAS No. 115 and to investment securities accounted for under the cost method to the extent an impairment indicator exists. Under the guidance, the determination of whether an impairment is other-than-temporary and therefore would result in a recognized loss depends on market conditions and management's intent and ability to hold the securities with unrealized losses. In September 2004, the FASB approved FSP EITF 03-1, which defers the effective date for recognition and measurement guidance contained in EITF 03-1 until certain issues are resolved. Merrill Lynch will adopt the guidance at the time it is issued. Merrill Lynch previously implemented the disclosure requirements of EITF 03-1 in its December 26, 2003 Consolidated Financial Statements. See Note 4 to the Consolidated Financial Statements for additional information.

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On December 23, 2003, the FASB issued SFAS No. 132 (revised 2003), *Employers' Disclosures about Pensions and Other Postretirement Benefits.* The revised SFAS No. 132 retains the disclosure requirements in the original statement and requires additional disclosures about pension plan assets, benefit obligations, cash flows, benefit costs and other relevant information. Merrill Lynch adopted the provisions of SFAS No. 132 as of December 26, 2003. See Note 12 to the Consolidated Financial Statements for these disclosures.

In December of 2003, the AICPA issued Statement of Position ("SOP") 03-3, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer.* SOP 03-3 addresses revenue recognition and impairment assessments for certain loans and debt securities that were purchased at a discount that was at least in part due to credit quality. SOP 03-3 states that where expected cash flows from the loan or debt security can be reasonably estimated, the difference between the purchase price and the expected cash flows (i.e., the "accretable yield") should be accreted into income. In addition, the SOP prohibits the recognition of an allowance for loan losses on the purchase date. Further, the SOP requires that any subsequent allowance for loan losses be supported through a cash flow analysis, on either an individual or on a pooled basis, for all loans that fall within the scope of the guidance. Merrill Lynch will adopt SOP 03-3 as of the beginning of fiscal year 2005. The adoption of the guidance will not have a material impact on the Consolidated Financial Statements.

On July 7, 2003, the AICPA issued SOP 03-1, *Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts.* The SOP was effective for financial statements for Merrill Lynch beginning in 2004. The SOP required the establishment of a liability for contracts that contain death or other insurance benefits using a specified reserve methodology that is different from the methodology that Merrill Lynch previously employed. The adoption of SOP 03-1 resulted in additional pre-tax expense of approximately $40 million in 2004. This resulted in a reduction in diluted earnings per share of $.03.

On January 17, 2003, the FASB issued FASB Interpretation No. 46 ("FIN 46"), which clarifies when an entity should consolidate entities that are considered VIEs, and, on December 24, 2003, the FASB issued a revised standard FIN 46R. A VIE is an entity in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties, and may include many types of Special Purpose Entities ("SPEs"). FIN 46R requires that an entity consolidate a VIE if that enterprise has a variable interest that will absorb a majority of the VIE's expected losses, receive a majority of the VIE's expected residual returns, or both. FIN 46R does not apply to qualifying special purpose entities ("QSPEs"), the accounting for which is governed by SFAS No. 140. As permitted by the transition guidance in FIN 46R, Merrill Lynch adopted the revised standard on an entity-by-entity basis. At December 26, 2003, Merrill Lynch applied FIN 46R to all VIEs with which it is involved, with the exception of those VIEs that issue Merrill Lynch TOPrS[SM]. The adoption of FIN 46R at December 26, 2003 did not have a material effect on the Consolidated Financial Statements. As of March 26, 2004, Merrill Lynch applied FIN 46R to those VIEs that issue TOPrS[SM]. As a result, these VIEs were deconsolidated. The deconsolidation of TOPrS[SM] did not have a material impact on the Consolidated Financial Statements of Merrill Lynch. See Note 6 to the Consolidated Financial Statements for additional FIN 46R disclosure.

NO. 2 SEGMENT AND GEOGRAPHIC INFORMATION

Segment Information

In reporting to management during 2004, Merrill Lynch's operating results were categorized into three business segments: Global Markets and Investment Banking ("GMI"), Global Private Client ("GPC"), and MLIM. Prior period amounts have been restated to conform to the 2004 presentation.

The principal methodology used in preparing the segment results in the table that follows is:

- Revenues and expenses are assigned to segments where directly attributable.
- Principal transactions, net interest and investment banking revenues and related costs resulting from the client activities of GPC are allocated among GMI and GPC based on production credits, share counts, trade counts, and other measures which estimate relative value.
- MLIM receives a net advisory fee from GPC relating to certain MLIM-branded products offered through GPC's 401(k) product offering.
- Revenues and expenses related to mutual fund shares bearing a contingent deferred sales charge are reflected in segment results as if MLIM and GPC were unrelated entities.
- Interest (cost of carry) is allocated based on management's assessment of the relative liquidity of segment assets and liabilities.
- Acquisition financing costs and other corporate interest, September 11-related expenses and research and other settlement-related expenses are not attributed to segments because management excludes these items from segment operating results in evaluating segment performance. The elimination of intersegment revenues and expenses is also included in Corporate items.
- Residual expenses (i.e., those related to overhead and support units) are attributed to segments based on specific methodologies (e.g., headcount, square footage, intersegment agreements, etc.).

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Management believes that the following information by business segment provides a reasonable representation of each segment's contribution to the consolidated net revenues and pre-tax earnings:

(dollars in millions)

	GMI	GPC	MLIM	Corporate Items (including intersegment eliminations)	Total
2004					
Non-interest revenues	**$ 7,432**	**$ 8,507**	**$ 1,558**	**$ (3)**[1]	**$ 17,494**
Net interest profit[2]	**3,590**	**1,324**	**23**	**(408)**[3]	**4,529**
Net revenues	**11,022**	**9,831**	**1,581**	**(411)**	**22,023**
Non-interest expenses	**7,153**	**7,958**	**1,121**	**(45)**[4]	**16,187**
Pre-tax earnings (loss)	**$ 3,869**	**$ 1,873**	**$ 460**	**$ (366)**	**$ 5,836**
Year-end total assets	**$ 559,329**	**$ 72,995**	**$ 9,025**	**$ 6,710**	**$ 648,059**
2003					
Non-interest revenues	$ 7,176	$ 7,536	$ 1,335	$ (8)[1]	$ 16,039
Net interest profit[2]	2,817	1,357	24	(369)[3]	3,829
Net revenues	9,993	8,893	1,359	(377)	19,868
Non-interest expenses	6,218	7,367	1,099	(36)[4]	14,648
Pre-tax earnings (loss)	$ 3,775	$ 1,526	$ 260	$ (341)	$ 5,220
Year-end total assets	$ 420,917	$ 64,387	$ 5,461	$ 5,378	$ 496,143
2002					
Non-interest revenues	$ 6,076	$ 7,455	$ 1,487	$ (42)[1]	$ 14,976
Net interest profit[2]	2,263	1,332	24	(280)[3]	3,339
Net revenues	8,339	8,787	1,511	(322)	18,315
Non-interest expenses	6,872	7,721	1,293	1174	16,003
Pre-tax earnings (loss)	$ 1,467	$ 1,066	$ 218	$ (439)	$ 2,312
Year-end total assets	$ 380,755	$ 60,138	$ 5,517	$ 5,009	$ 451,419

1 Primarily represents the elimination of intersegment revenues and expenses.

2 Management views interest income net of interest expense in evaluating results.

3 Represents acquisition financing costs, the impact of TOPrS[SM] and other corporate interest.

4 Represents elimination of intersegment revenues and expenses, September 11-related net expenses in 2003 and 2002, and research and other settlement-related expenses in 2002.

Geographic Information

Merrill Lynch operates in both U.S. and non-U.S. markets. Merrill Lynch's non-U.S. business activities are conducted through offices in four regions:

- Europe, Middle East, and Africa;
- Pacific Rim;
- Canada; and
- Latin America.

The principal methodology used in preparing the geographic data in the table that follows is:

- Revenue and expenses are generally recorded based on the location of the employee generating the revenue or incurring the expense;
- Earnings before income taxes include the allocation of certain shared expenses among regions; and
- Intercompany transfers are based primarily on service agreements.

The information that follows, in management's judgment, provides a reasonable representation of each region's contribution to the consolidated net revenues and pre-tax earnings:

(dollars in millions)

	2004	2003	2002
Net revenues			
Europe, Middle East, and Africa	**$ 3,390**	$ 3,345	$ 2,543
Pacific Rim	**2,278**	2,002	1,449
Canada	**246**	223	248
Latin America	**642**	562	503
Total Non-U.S.	**6,556**	6,132	4,743
United States	**15,878**	14,113	13,894
Corporate	**(411)**	(377)	(322)
Total	**$22,023**	$19,868	$18,315
Earnings (loss) before income taxes			
Europe, Middle East, and Africa	**$ 645**	$ 839	$ (201)
Pacific Rim	**899**	801	197
Canada	**74**	64	87
Latin America	**238**	195	103
Total Non-U.S.	**1,856**	1,899	186
United States	**4,346**	3,662	2,565
Corporate	**(366)**	(341)	(439)
Total	**$ 5,836**	$ 5,220	$ 2,312

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NO. 3 SECURITIES FINANCING TRANSACTIONS

Merrill Lynch enters into secured borrowing and lending transactions in order to finance trading inventory positions, obtain securities for settlement, meet customers' needs and earn residual interest rate spreads.

Under these transactions, Merrill Lynch either receives or provides collateral, including U.S. Government and agencies, asset-backed, corporate debt, equity, and non-U.S. governments and agencies securities. Merrill Lynch receives collateral in connection with resale agreements, securities borrowed transactions, customer margin loans, and other loans. Under many agreements, Merrill Lynch is permitted to sell or repledge these securities held as collateral (e.g., use the securities to secure repurchase agreements, enter into securities lending transactions, or deliver to counterparties to cover short positions). At December 31, 2004 and December 26, 2003, the fair value of securities received as collateral where Merrill Lynch is permitted to sell or repledge the securities was $375 billion and $275 billion, respectively, and the fair value of the portion that has been sold or repledged was $300 billion and $240 billion, respectively. Merrill Lynch may use securities received as collateral for resale agreements to satisfy regulatory requirements such as Rule 15c3-3 of the SEC. At December 31, 2004, the fair value of collateral used for this purpose was $4.2 billion.

Merrill Lynch pledges firm-owned assets to collateralize repurchase agreements and other secured financings. Pledged securities that can be sold or repledged by the secured party are parenthetically disclosed in trading assets and investment securities on the Consolidated Balance Sheets. The carrying value and classification of securities owned by Merrill Lynch that have been pledged to counterparties where those counterparties do not have the right to sell or repledge at year-end 2004 and 2003 are as follows:

(dollars in millions)

	2004	2003
Trading asset category		
Corporate debt and preferred stock	**$11,248**	$ 6,766
Mortgages, mortgage-backed, and asset-backed securities	**10,302**	10,855
U.S. Government and agencies	**9,199**	9,293
Equities and convertible debentures	**6,754**	2,215
Non-U.S. governments and agencies	**2,031**	910
Municipals and money markets	**1,544**	82
Total	**$41,078**	$30,121

NO. 4 INVESTMENT SECURITIES

Investment securities on the Consolidated Balance Sheets includes liquid debt securities including those held for liquidity management purposes, equity securities, the investment portfolio for Merrill Lynch's U.S. banks, and investments of insurance subsidiaries. Investments of insurance subsidiaries are primarily debt securities, which are used to fund policyholder liabilities. Also included in investment securities are non-qualifying investments under SFAS No. 115, which include private equity investments, including partnership interests, and insurance policy loans. Investment securities reported on the Consolidated Balance Sheets at December 31, 2004 and December 26, 2003 are as follows:

(dollars in millions)

	2004	2003
Investment securities		
Available-for-sale[1]	**$66,224**	$66,121
Trading	**6,603**	4,798
Held-to-maturity	**1,231**	636
Non-qualifying[2]		
Investments in and advances to cost and equity method investees	**7,958**	7,177
Investments of insurance subsidiaries[3]	**1,354**	1,442
Deferred compensation hedges[4]	**807**	636
Investments in TOPrS[SM] partnerships	**548**	564
Total	**$84,725**	$81,374

1 At December 31, 2004, and December 26, 2003, includes $6.9 billion and $6.6 billion, respectively, of investment securities reported in cash and securities segregated for regulatory purposes or deposited with clearing organizations.

2 Non-qualifying for SFAS No. 115 purposes.

3 Primarily represents insurance policy loans.

4 Represents investments economically hedging deferred compensation liabilities.

The fair value of non-qualifying investment securities approximated the carrying amounts at year-end 2004 and 2003, respectively. Fair value for non-qualifying investments is estimated using a number of methods, including earnings multiples, discounted cash flow analyses, and review of underlying financial conditions and other market factors. These instruments may be subject to restrictions (e.g., sale requires consent of other investors to sell) that may limit Merrill Lynch's ability to realize currently the estimated fair value. Accordingly, Merrill Lynch's current estimate of fair value and the ultimate realization for these instruments may differ.

Investment securities accounted for under SFAS No. 115 are classified as available-for-sale, held-to-maturity, or trading as described in Note 1 to the Consolidated Financial Statements.

Information regarding investment securities subject to SFAS No. 115 follows:

(dollars in millions)

	December 31, 2004				December 26, 2003			
	Cost/ Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Cost/ Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-Sale								
Mortgage- and asset-backed	$ 52,719	$ 306	$ (209)	$ 52,816	$ 45,950	$ 636	$ (155)	$ 46,431
Corporate debt	5,708	61	(17)	5,752	3,490	84	(13)	3,561
U.S. Government and agencies	4,315	57	(20)	4,352	11,442	210	(77)	11,575
Non-U.S. Governments and agencies	1,088	41	(1)	1,128	822	1	(14)	809
Other	263	9	(4)	268	1,979	12	–	1,991
Total debt securities	64,093	474	(251)	64,316	63,683	943	(259)	64,367
Equity securities	1,895	20	(7)	1,908	1,747	11	(4)	1,754
Total	$ 65,988	$ 494	$ (258)	$ 66,224	$ 65,430	$ 954	$ (263)	$ 66,121
Held-to-Maturity								
Non-U.S. Governments and agencies	$ 952	$ –	$ (7)	$ 945	$ 360	$ –	$ –	$ 360
Municipals	246	–	–	246	254	–	–	254
Mortgage- and asset-backed	20	–	–	20	20	–	–	20
Corporate debt	12	–	–	12	–	–	–	–
U.S. Government and agencies	1	–	–	1	2	–	–	2
Total	$ 1,231	$ –	$ (7)	$ 1,224	$ 636	$ –	$ –	$ 636

The following table presents fair value and unrealized losses, after hedges, for available-for-sale securities, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position at December 31, 2004.

(dollars in millions)

	Less than 1 Year		More than 1 Year		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Asset category						
Mortgage- and asset-backed	$ 23,758	$ (105)	$ 7,408	$ (109)	$ 31,166	$ (214)
U.S. Government and agencies	2,745	(4)	1,461	(24)	4,206	(28)
Corporate debt	2,529	(13)	177	(4)	2,706	(17)
Non-U.S. Governments and agencies	77	(1)	899	(21)	976	(22)
Other	–	–	193	(3)	193	(3)
Total debt securities	29,109	(123)	10,138	(161)	39,247	(284)
Equity securities	9	(2)	19	(4)	28	(6)
Total temporarily impaired securities	$ 29,118	$ (125)	$ 10,157	$ (165)	$ 39,275	$ (290)

The majority of the unrealized losses relate to mortgage- and asset-backed securities and U.S. Government and agencies securities. The majority of the investments are AAA-rated debentures and mortgage-backed securities issued by U.S. agencies. These investments are not considered other-than-temporarily impaired because Merrill Lynch has the ability and intent to hold the investments for a period of time sufficient for a forecasted market price recovery up to or beyond the cost of the investment.

During 2003, other revenues included a write-down of $114 million related to certain available-for-sale securities that were considered to be impaired on an other-than-temporary basis. Unrealized losses on these securities were previously included in accumulated other comprehensive loss. During 2003, the write-down was charged to earnings and removed from accumulated other comprehensive loss.

The amortized cost and estimated fair value of debt securities at December 31, 2004 by contractual maturity, for available-for-sale and held-to-maturity investments follow:

(dollars in millions)

	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 5,991	$ 5,992	$ 110	$ 109
Due after one year through five years	2,295	2,315	627	626
Due after five years through ten years	2,522	2,544	451	446
Due after ten years	566	649	23	23
	11,374	11,500	1,211	1,204
Mortgage- and asset-backed securities	52,719	52,816	20	20
Total[1]	$ 64,093	$ 64,316	$ 1,231	$ 1,224

1 Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without prepayment penalties.

The proceeds and gross realized gains (losses) from the sale of available-for-sale investments are as follows:

(dollars in millions)

	2004	2003	2002
Proceeds	$27,983	$56,448	$36,697
Gross realized gains	389	709	331
Gross realized losses	(54)	(138)	(60)

Net unrealized gains (losses) from investment securities classified as trading included in the 2004, 2003, and 2002 Consolidated Statements of Earnings were $(279) million, $(93) million, and $70 million, respectively.

NO. 5 TRADING ASSETS AND LIABILITIES

As part of its trading activities, Merrill Lynch provides its clients with brokerage, dealing, financing, and underwriting services for a broad range of products. While trading activities are primarily generated by client order flow, Merrill Lynch also takes proprietary positions based on expectations of future market movements and conditions. Merrill Lynch's trading strategies rely on the integrated management of its client-driven and proprietary positions, along with related hedging and financing.

Interest revenue and expense are integral components of trading activities. In assessing the profitability of trading activities, Merrill Lynch views net interest and principal transactions revenues in the aggregate.

Trading activities expose Merrill Lynch to market and credit risks. These risks are managed in accordance with established risk management policies and procedures. Refer to Note 1 to the Consolidated Financial Statements for additional information on risk management.

Market Risk

Market risk is the potential change in an instrument's value caused by fluctuations in interest and currency exchange rates, equity and commodity prices, credit spreads, or other risks. The level of market risk is influenced by the volatility and the liquidity in the markets in which financial instruments are traded.

Merrill Lynch seeks to mitigate market risk associated with trading inventories by employing hedging strategies that correlate rate, price, and spread movements of trading inventories and related financing and hedging activities. Merrill Lynch uses a combination of cash instruments and derivatives to hedge its market exposures. The following discussion describes the types of market risk faced by Merrill Lynch.

Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments. Interest rate swap agreements, Eurodollar futures, and U.S. Treasury securities and futures are common interest rate risk management tools. The decision to manage interest rate risk using futures or swap contracts, as opposed to buying or selling short U.S. Treasury or other securities, depends on current market conditions and funding considerations.

Interest rate agreements used by Merrill Lynch include caps, collars, floors, basis swaps, leveraged swaps, and options. Interest rate caps and floors provide the purchaser with protection against rising and falling interest rates, respectively. Interest rate collars combine a cap and a floor, providing the purchaser with a predetermined interest rate range. Basis swaps are a type of interest rate swap agreement where variable rates are received and paid, but are based on different index rates. Leveraged swaps are another type of interest rate swap where changes in the variable rate are multiplied by a contractual leverage factor, such as four times three-month London Interbank Offered Rate ("LIBOR"). Merrill Lynch's exposure to interest rate risk resulting from these leverage factors is typically hedged with other financial instruments.

Currency Risk

Currency risk arises from the possibility that fluctuations in foreign exchange rates will impact the value of financial instruments. Merrill Lynch's trading assets and liabilities include both cash instruments denominated in and derivatives linked to more than 50 currencies, including the euro, Japanese yen, Swiss franc, and British pound. Currency forwards and options are commonly used to manage currency risk associated with these instruments. Currency swaps may also be used in situations where a long-dated forward market is not available or where the client needs a customized instrument to hedge a foreign currency cash flow stream. Typically, parties to a currency swap initially exchange principal amounts in two currencies, agreeing to exchange interest payments and to re-exchange the currencies at a future date and exchange rate.

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Equity Price Risk

Equity price risk arises from the possibility that equity security prices will fluctuate, affecting the value of equity securities and other instruments that derive their value from a particular stock, a defined basket of stocks, or a stock index. Instruments typically used by Merrill Lynch to manage equity price risk include equity options, warrants, and baskets of equity securities. Equity options, for example, can require the writer to purchase or sell a specified stock or to make a cash payment based on changes in the market price of that stock, basket of stocks, or stock index.

Credit Spread Risk

Credit spread risk arises from the possibility that changes in credit spreads will affect the value of financial instruments. Credit spreads represent the credit risk premiums required by market participants for a given credit quality (i.e., the additional yield that a debt instrument issued by a AA-rated entity must produce over a risk-free alternative (e.g., U.S. Treasury instrument)). Certain instruments are used by Merrill Lynch to manage this type of risk. Swaps and options, for example, can be designed to mitigate losses due to changes in credit spreads, as well as the credit downgrade or default of the issuer. Credit risk resulting from default on counterparty obligations is discussed in the Credit Risk section.

Commodity Price and Other Risks

Through its commodities business, Merrill Lynch enters into exchange-traded contracts, financially settled OTC derivatives, contracts for physical delivery and contracts providing for the transportation and/or storage rights on pipelines, power lines or storage facilities. Financially settled contracts expose Merrill Lynch to the possibility that the price of the underlying commodity may rise or fall. In addition, contracts resulting in physical delivery can expose Merrill Lynch to settlement risk for the full value of the contract. Commodity and commodity-related contracts held by Merrill Lynch principally relate to natural gas and power.

Credit Risk

Merrill Lynch is exposed to risk of loss if an issuer, counterparty or country fails to perform its obligations under contractual terms ("default risk"). Both cash instruments and derivatives expose Merrill Lynch to default risk. Credit risk arising from changes in credit spreads was previously discussed in the Market Risk section.

Merrill Lynch has established policies and procedures for mitigating credit risk on principal transactions, including reviewing and establishing limits for credit exposure, maintaining collateral, and continually assessing the creditworthiness of counterparties.

In the normal course of business, Merrill Lynch executes, settles, and finances various customer securities transactions. Execution of these transactions includes the purchase and sale of securities by Merrill Lynch. These activities may expose Merrill Lynch to default risk arising from the potential that customers or counter-parties may fail to satisfy their obligations. In these situations, Merrill Lynch may be required to purchase or sell financial instruments at unfavorable market prices to satisfy obligations to other customers or counterparties. Additional information about these obligations is provided in Note 11 to the Consolidated Financial Statements. In addition, Merrill Lynch seeks to control the risks associated with its customer margin activities by requiring customers to maintain collateral in compliance with regulatory and internal guidelines.

Liabilities to other brokers and dealers related to unsettled transactions (i.e., securities failed-to-receive) are recorded at the amount for which the securities were purchased, and are paid upon receipt of the securities from other brokers or dealers. In the case of aged securities failed-to-receive, Merrill Lynch may purchase the underlying security in the market and seek reimbursement for losses from the counterparty.

Concentrations of Credit Risk

Merrill Lynch's exposure to credit risk (both default and credit spread) associated with its trading and other activities is measured on an individual counterparty basis, as well as by groups of counterparties that share similar attributes. Concentrations of credit risk can be affected by changes in political, industry, or economic factors. To reduce the potential for risk concentration, credit limits are established and monitored in light of changing counterparty and market conditions.

At December 31, 2004, Merrill Lynch's most significant concentration of credit risk was with the U.S. Government and its agencies. This concentration consists of both direct and indirect exposures. Direct exposure, which primarily results from trading asset and investment security positions in instruments issued by the U.S. Government and its agencies, amounted to $18.3 billion and $22.1 billion at December 31, 2004 and December 26, 2003, respectively. Merrill Lynch's indirect exposure results from maintaining U.S. Government and agencies securities as collateral for resale agreements and securities borrowed transactions. Merrill Lynch's direct credit exposure on these transactions is with the counterparty; thus Merrill Lynch has credit exposure to the U.S. Government and its agencies only in the event of the counterparty's default. Securities issued by the U.S. Government or its agencies held as collateral for resale agreements and securities borrowed transactions at December 31, 2004 and December 26, 2003 totaled $79.3 billion and $98.2 billion, respectively.

At December 31, 2004, Merrill Lynch had concentrations of credit risk with other counterparties, the largest of which was a sovereign government rated AAA by recognized credit-rating agencies. Total unsecured exposure to this counterparty was approximately $3.5 billion, or 0.5% of total assets.

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Merrill Lynch's most significant industry credit concentration is with financial institutions. Financial institutions include other brokers and dealers, commercial banks, finance companies, insurance companies, and investment companies. This concentration arises in the normal course of Merrill Lynch's brokerage, trading, hedging, financing, and underwriting activities. Merrill Lynch also monitors credit exposures worldwide by region. Outside the United States, financial institutions and sovereign governments represent the most significant concentrations.

In the normal course of business, Merrill Lynch purchases, sells, underwrites, and makes markets in non-investment grade instruments. In conjunction with merchant banking activities, Merrill Lynch also provides extensions of credit and makes equity investments to facilitate leveraged transactions. These activities expose Merrill Lynch to a higher degree of credit risk than is associated with trading, investing in, and underwriting investment grade instruments and extending credit to investment grade counterparties.

Derivatives

Merrill Lynch's trading derivatives consist of derivatives provided to customers and derivatives entered into for proprietary trading strategies or risk management purposes.

Default risk on derivatives can also occur for the full notional amount of the trade where a final exchange of principal takes place, as may be the case for currency swaps. Default risk exposure varies by type of derivative. Swap agreements and forward contracts are generally OTC-transacted and thus are exposed to default risk to the extent of their replacement cost. Since futures contracts are exchange-traded and usually require daily cash settlement, the related risk of loss is generally limited to a one-day net positive change in market value. Generally such receivables and payables are recorded in customers receivables and payables on the Consolidated Balance Sheets. Option contracts can be exchange-traded or OTC-transacted. Purchased options have default risk to the extent of their replacement cost. Written options represent a potential obligation to counterparties and typically do not subject Merrill Lynch to default risk except under circumstances such as where the option premium is being financed or in cases where Merrill Lynch is required to post collateral. Additional information about derivatives that meet the definition of a guarantee for accounting purposes is included in Note 11 to the Consolidated Financial Statements.

Merrill Lynch generally enters into International Swaps and Derivatives Association, Inc. master agreements or their equivalent ("master netting agreements") with each of its counterparties, as soon as possible. Master netting agreements provide protection in bankruptcy in certain circumstances and, in some cases, enable receivables and payables with the same counterparty to be offset on the Consolidated Balance Sheets, providing for a more meaningful balance sheet presentation of credit exposure. However, the enforceability of master netting agreements under bankruptcy laws in certain countries, or in certain industries, is not free from doubt and receivables and payables with counterparties in these countries or industries are accordingly recorded on a gross basis.

To reduce the risk of loss, Merrill Lynch requires collateral, principally cash and U.S. Government and agencies securities, on certain derivative transactions. From an economic standpoint, Merrill Lynch evaluates default risk exposures net of related collateral. At December 31, 2004, such collateral amounted to $11.1 billion. In addition to obtaining collateral, Merrill Lynch attempts to mitigate default risk on derivatives by entering into transactions with provisions that enable Merrill Lynch to terminate or reset the terms of the derivative contract.

Many of Merrill Lynch's derivative contracts contain provisions that could, upon an adverse change in ML & Co.'s credit rating, trigger a requirement for an early payment or additional collateral support.

NO. 6 SECURITIZATION TRANSACTIONS AND TRANSACTIONS WITH SPECIAL PURPOSE ENTITIES (SPEs)

Securitizations

In the normal course of business, Merrill Lynch securitizes: commercial and residential mortgage and home equity loans; municipal, government, and corporate bonds; and other types of financial assets. SPEs, often referred to as Variable Interest Entities, or VIEs, are often used when entering into or facilitating securitization transactions. Merrill Lynch's involvement with SPEs used to securitize financial assets includes: establishing SPEs; selling assets to SPEs; structuring SPEs; underwriting, distributing, and making loans to SPEs; making markets in securities issued by SPEs; engaging in derivative transactions with SPEs; owning notes or certificates issued by SPEs; and/or providing liquidity facilities and other guarantees to SPEs.

Merrill Lynch securitized assets of approximately $65.1 billion and $61.9 billion for the years ended December 31, 2004 and December 26, 2003, respectively. For the years ended December 31, 2004 and December 26, 2003, Merrill Lynch received $65.9 billion and $62.7 billion, respectively, of proceeds, and other cash inflows, from securitization transactions, and recognized net securitization gains of $456.5 million and $270.2 million, respectively, in Merrill Lynch's Consolidated Statements of Earnings. Merrill Lynch generally records assets prior to securitization at fair value.

In 2004 and 2003, cash inflows from securitizations related to the following asset types:

(dollars in millions)

	2004	2003
Asset category		
Residential mortgage loans	**$45,944**	$43,717
Municipal bonds	**9,982**	11,301
Corporate and government bonds	**1,486**	1,721
Commercial loans and other	**8,462**	6,002
	$65,874	$62,741

In certain instances, Merrill Lynch retains interests in the senior tranche, subordinated tranche, and/or residual tranche of securities issued by certain SPEs created to securitize assets. The gain or loss on the sale of the assets is determined with reference to the previous carrying amount of the financial assets transferred, which is allocated between the assets sold and the retained interests, if any, based on their relative fair value at the date of transfer.

Retained interests are recorded in the Consolidated Financial Statements at fair value. To obtain fair values, observable market prices are used if available. Where observable market prices are unavailable, Merrill Lynch generally estimates fair value initially and on an ongoing basis based on the present value of expected future cash flows using management's best estimates of credit losses, prepayment rates, forward yield curves, and discount rates, commensurate with the risks involved. Retained interests are either held as trading assets, with changes in fair value recorded in the Consolidated Statements of Earnings, or as securities available-for-sale, with changes in fair value included in accumulated other comprehensive loss. Retained interests held as available-for-sale are reviewed periodically for impairment.

Retained interests in securitized assets were approximately $2.0 billion and $2.7 billion at December 31, 2004 and December 26, 2003, respectively, which related primarily to residential mortgage loan and municipal bond securitization transactions. The majority of the retained interest balance consists of mortgage-backed securities that have observable market prices. These retained interests include mortgage-backed securities that Merrill Lynch has committed to purchase and expects to sell to investors in the normal course of its underwriting activity.

The following table presents information on retained interests, excluding the offsetting benefit of financial instruments used to hedge risks, held by Merrill Lynch as of December 31, 2004, arising from Merrill Lynch's residential mortgage loan, municipal bond and other securitization transactions. The sensitivities of the current fair value of the retained interests to immediate 10% and 20% adverse changes in assumptions and parameters are also shown.

(dollars in millions)

	Residential Mortgage Loans	Municipal Bonds	Other
Retained interest amount	**$ 1,288**	**$ 673**	**$ 75**
Weighted average credit losses (rate per annum)	**0.8%**	**0.0%**	**0.4%**
Range	**0.0-8.0%**	**0.0%**	**0.0-8.0%**
Impact on fair value of 10% adverse change	**$ (10)**	**$ –**	**$ –**
Impact on fair value of 20% adverse change	**$ (20)**	**$ –**	**$ (1)**
Weighted average discount rate	**5.8%**	**3.1%**	**10.6%**
Range	**2.4 – 50.0%**	**1.8 – 10.0%**	**4.7 – 25.0%**
Impact on fair value of 10% adverse change	**$ (19)**	**$ (76)**	**$ (3)**
Impact on fair value of 20% adverse change	**$ (36)**	**$ (143)**	**$ (7)**
Weighted average life (in years)	**3.7**	**2.4**	**6.1**
Range	**0.0 – 11.4**	**0.1 – 6.0**	**0.8 – 9.3**
Weighted average prepayment speed (CPR)	**23.7%**	**16.7%**[1]	**7.6%**
Range	**0.0 – 55.0%**	**2.0 – 23.9%**[1]	**0.0 – 15.0%**
Impact on fair value of 10% adverse change	**$ (8)**	**$ –**	**$ –**
Impact on fair value of 20% adverse change	**$ (16)**	**$ (1)**	**$ (1)**

CPR=Constant Prepayment Rate

1 Relates to select securitization transactions where assets are prepayable.

The preceding table does not include the offsetting benefit of financial instruments that Merrill Lynch utilizes to hedge risks, including credit, interest rate, and prepayment risk, that are inherent in the retained interests. Merrill Lynch employs hedging strategies that are structured to take into consideration the hypothetical stress scenarios above such that they would be effective in principally offsetting Merrill Lynch's exposure to loss in the event these scenarios occur. In addition, the sensitivity analysis is hypothetical and should be used with caution. In particular, the effect of a variation in a particular assumption on the fair value of the retained interest is calculated independent of changes in any other assumption; in practice, changes in one factor may result in changes in another, which might magnify or counteract the sensitivities. Further, changes in fair value based on a 10% or 20% variation in an assumption or parameter generally cannot be extrapolated because the relationship of the change in the assumption to the change in fair value may not be linear. Also, the sensitivity analysis does not consider any hedging activity that Merrill Lynch may take to mitigate the impact of any adverse changes in the key assumptions.

The weighted average assumptions and parameters used initially to value retained interests relating to securitizations effected in 2004 that were still held by Merrill Lynch as of December 31, 2004 are as follows:

	Residential Mortgage Loans	Municipal Bonds	Other
Credit losses (rate per annum)	**0.3%**	**0.0%**	**0.0%**
Weighted average discount rate	**4.6%**	**3.6%**	**3.7%**
Weighted average life (in years)	**3.3**	**–**	**–**
Prepayment speed assumption (CPR)	**17.0%**	**–**	**–**

CPR=Constant Prepayment Rate

For residential mortgage loan and other securitizations, the investors and the securitization trust have no recourse to Merrill Lynch's other assets for failure of mortgage holders to pay when due.

For municipal bond securitization SPEs, in the normal course of dealer market-making activities, Merrill Lynch acts as liquidity provider. Specifically, the holders of beneficial interests issued by municipal bond securitization SPEs have the right to tender their interests for purchase by Merrill Lynch on specified dates at a specified price. Beneficial interests that are tendered are then sold by Merrill Lynch to investors through a best efforts remarketing where Merrill Lynch is the remarketing agent. If the beneficial interests are not successfully remarketed, the holders of beneficial interests are paid from funds drawn under a standby liquidity letter of credit issued by Merrill Lynch.

In addition to standby letters of credit, in certain municipal bond securitizations, Merrill Lynch also provides default protection or credit enhancement to investors in securities issued by certain municipal bond securitization SPEs. Interest and principal payments on beneficial interests issued by these SPEs are secured by a guarantee issued by Merrill Lynch. In the event that the issuer of the underlying municipal bond defaults on any payment of principal and/or interest when due, the payments on the bonds will be made to beneficial interest holders from an irrevocable guarantee by Merrill Lynch.

The maximum commitment under these liquidity and default guarantees totaled \$21.3 billion and \$17.0 billion at December 31, 2004 and December 26, 2003, respectively. The fair value of the commitments approximate \$74 million and \$126 million at December 31, 2004 and December 26, 2003, respectively, which is reflected in the Consolidated Financial Statements. Of these arrangements, \$4.7 billion and \$2.8 billion at December 31, 2004 and December 26, 2003, respectively, represent agreements where the guarantee is provided to the SPE by a third-party financial intermediary and Merrill Lynch enters into a reimbursement agreement with the financial intermediary. In these arrangements, if the financial intermediary incurs losses, Merrill Lynch has up to one year to fund those losses. Additional information regarding these commitments is provided in Note 11 to the Consolidated Financial Statements.

The following table summarizes principal amounts outstanding and delinquencies of securitized financial assets as of December 31, 2004 and December 26, 2003, and net credit losses for the years then ended:

(dollars in millions)

	Residential Mortgage Loans	Municipal Bonds	Other
December 31, 2004			
Principal Amount Outstanding	**$ 31,541**	**$ 14,510**	**$ 3,866**
Delinquencies	**40**	**–**	**–**
Net Credit Losses	**2**	**–**	**9**
December 26, 2003			
Principal Amount Outstanding	$ 43,777	$ 14,890	$ 4,527
Delinquencies	54	–	–
Net Credit Losses	3	–	8

Variable Interest Entities

In January 2003, the FASB issued FIN 46, which provides additional guidance on the application of Accounting Research Bulletin No. 51, *Consolidated Financial Statements,* for enterprises that have interests in entities that meet the definition of a VIE, and on December 24, 2003, the FASB issued FIN 46R. FIN 46R requires that an entity shall consolidate a VIE if that enterprise has a variable interest that will absorb a majority of the VIE's expected losses, receive a majority of the VIE's expected residual returns, or both.

As permitted under the transition guidance, Merrill Lynch adopted the provisions of FIN 46R on an entity-by-entity basis. At December 26, 2003, Merrill Lynch applied FIN 46R for purposes of determining those VIEs that must be consolidated or disclosed as giving rise to a significant variable interest, with the exception of those VIEs that issue TOPrS℠, in which case Merrill Lynch applied FIN 46R beginning in the first quarter of 2004. Those VIEs that were consolidated under FIN 46R at year-end 2003 did not have a material effect on the year-end 2003 consolidated financial statements.

During the first quarter of 2004, in accordance with FIN 46R, Merrill Lynch deconsolidated the partnerships and trusts that issue TOPrS℠, since Merrill Lynch does not bear the majority of the risks and rewards of those entities. As a result, quarterly payments, of approximately \$48 million per quarter, related to the TOPrS℠, are recorded in net revenues (primarily interest expense), and the debt, of approximately \$3.1 billion, and partnership interests, of \$548 million, related to the entities as of December 31, 2004, have been included in the Consolidated Balance Sheets as long-term debt issued to TOPrS℠ partnerships and investment securities, respectively.

For the purpose of determining whether Merrill Lynch has a variable interest in a VIE, Merrill Lynch generally employs a cash flow approach. Under a cash flow approach, the determination as to whether an interest is a variable interest is based on whether the interest absorbs variability in the cash flows of the VIE.

Merrill Lynch has entered into transactions with a number of VIEs in which it is the primary beneficiary and therefore must consolidate the VIE; or is a significant variable interest holder in the VIE. These VIEs are as follows:

- Merrill Lynch is the sponsor, guarantor and/or derivative counterparty of certain mutual funds, closed-end funds and other investment entities that provide a guaranteed return to certain investors at the maturity of the VIE. This guarantee may include a guarantee of the return of an initial investment or of the initial investment plus an agreed upon return depending on the terms of the VIE. The guarantee may be provided to investors in the form of an option contract between Merrill Lynch and the VIE via a stated minimum return, or otherwise. Investors in certain of these VIEs have recourse to Merrill Lynch to the extent that the value of the assets held by the VIEs at maturity is less than the guaranteed amount. In some instances, Merrill Lynch is the primary beneficiary and must consolidate the fund. In instances where Merrill Lynch is not the primary beneficiary, the guarantees related to these funds are further discussed in Note 11 to the Consolidated Financial Statements.
- Merrill Lynch has made loans to, and/or investments in, VIEs that hold loan receivable assets and real estate, and as a result of these loans and investments, Merrill Lynch may be either the primary beneficiary of and consolidate the VIE, or may be a significant variable interest holder. These VIEs are primarily designed to provide temporary on- or off-balance sheet financing to clients and/or to invest in real estate. Assets held by VIEs where Merrill Lynch has provided financing and is the primary beneficiary are recorded in other assets and/or loans, notes, and mortgages in the Consolidated Balance Sheet. Assets held by VIEs where Merrill Lynch has invested in real estate partnerships are classified as investment securities, where Merrill Lynch holds a significant variable interest, and in other assets, where Merrill Lynch is the primary beneficiary. The beneficial interest holders in these VIEs have no recourse to the general credit of Merrill Lynch; their investments are paid exclusively from the assets in the VIE.
- Merrill Lynch has a significant variable interest in municipal bond securitization QSPEs to which it provides liquidity and/or default facilities. Additional information on these programs is provided in the retained interest securitization disclosures above and in Note 11 to the Consolidated Financial Statements.
- Merrill Lynch has entered into transactions with VIEs that are used, in part, to provide tax planning strategies to investors and/or Merrill Lynch through an enhanced yield investment security. These structures typically provide financing to Merrill Lynch and/or the investor at enhanced rates. Merrill Lynch may be either the primary beneficiary of and consolidate the VIE, or may be a significant variable interest holder in the VIE.
  In 2004, Merrill Lynch entered into a transaction with an international financial institution involving VIEs that provided to Merrill Lynch a $6.25 billion secured credit facility and $500 million unsecured financing. These VIEs are also used as part of Merrill Lynch's overall tax-planning strategies and enable Merrill Lynch to borrow at more favorable rates. Merrill Lynch consolidates the VIEs as it is deemed to be the primary beneficiary of these VIEs.
- Merrill Lynch has a significant variable interest in a residential mortgage securitization entered into by one of its banking subsidiaries. Specifically, Merrill Lynch retains a 97% interest in the VIE. In accordance with the previous accounting guidance of SFAS No. 125, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities,* this entity qualifies as a QSPE, and therefore Merrill Lynch does not consolidate the VIE. The interest is reported in investment securities on Merrill Lynch's Consolidated Balance Sheets.
- In 2004, Merrill Lynch entered into a transaction with a VIE whereby Merrill Lynch arranged for additional protection for directors and employees to indemnify them against certain losses they may incur as a result of claims against them. Merrill Lynch is the primary beneficiary and consolidates the VIE because its employees benefit from the indemnification arrangement. As of December 31, 2004 the assets of the VIE totaled approximately $16 million representing the fair value of a purchased credit default agreement, which is recorded in other assets on the Consolidated Balance Sheets. In the event of a Merrill Lynch insolvency, proceeds of $140 million will be received by the VIE to fund any claims. Neither Merrill Lynch nor its creditors have any recourse to the assets of the VIE.

Other Involvement with VIEs

Merrill Lynch is involved with other VIEs in which it is neither the primary beneficiary or a significant variable interest holder, rather its involvement relates to a significant program sponsored by Merrill Lynch. Significant programs sponsored by Merrill Lynch, which are disclosed in the table below, include the following:

- Merrill Lynch has entered into transactions with VIEs where Merrill Lynch typically purchases credit protection from the VIE in the form of a derivative in order to synthetically expose investors to a specific credit risk. These are commonly known as credit linked note VIEs.
- Merrill Lynch has entered into transactions with VIEs in which Merrill Lynch transfers convertible bonds to the VIE and retains a call option on the underlying bonds. The purpose of these VIEs is to market convertible bonds to a broad investor base by separating the bonds into callable debt and a conversion call option.

The following tables summarize Merrill Lynch's involvement with the VIEs listed above as of December 31, 2004 and December 26, 2003, respectively. Where an entity is a significant variable interest holder, FIN 46R requires that entity to disclose its maximum exposure to loss as a result of its interest in the VIE. It should be noted that this measure does not reflect Merrill Lynch's estimate of the actual losses that could result from adverse changes because it does not reflect the economic hedges Merrill Lynch enters into to reduce its exposure.

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(dollars in millions)

Description	Primary Beneficiary				Significant Variable Interest Holder				Other Involvement with VIEs			
December 31, 2004		Asset Size[4]		Recourse to Merrill Lynch[5]		Asset Size[4]		Maximum Exposure		Asset Size[4]		Maximum Exposure
Guaranteed and Other Funds	**$**	**1,062**	**$**	**256**	**$**	**–**	**$**	**–**	**$**	**–**	**$**	**-**
Loan and Real Estate VIEs		**756**		**–**		**1,054**		**930**		**–**		**-**
Municipal Bond Securitizations[1]		**–**		**–**		**21,251**		**21,251**		**–**		**-**
Tax Planning VIEs[2, 6]		**9,875**		**5,086**		**7,061**		**2,328**		**–**		**-**
Mortgage Securitizations		**–**		**–**		**284**		**276**		**–**		**-**
Credit Linked Note VIEs[3]		**16**		**–**		**–**		**–**		**8,415**		**506**
Convertible Bond Stripping VIEs[3]		**–**		**–**		**–**		**–**		**646**		**30**
December 26, 2003												
Guaranteed and Other Funds	$	706	$	440	$	–	$	–	$	–	$	–
Loan and Real Estate VIEs		775		–		636		567		–		–
Municipal Bond Securitizations[1]		–		–		16,927		16,927		–		–
Tax Planning VIEs[2, 6]		5,882		1,130		2,811		114		–		–
Mortgage Securitizations		–		–		345		334		–		–
Credit Linked Note VIEs[3]		–		–		–		–		6,402		474
Convertible Bond Stripping VIEs[3]		–		–		–		–		1,864		13

1 The maximum exposure for Municipal Bond Securitizations reflects Merrill Lynch's potential liability as a result of the liquidity and default facilities entered into with the VIEs. It significantly overestimates Merrill Lynch's probability weighted exposure to these VIEs because it does not reflect either the likelihood of the event occurring or the economic hedges that are designed to be effective in principally offsetting Merrill Lynch's exposure to loss.

2 The maximum exposure for Tax Planning VIEs reflects the fair value of investments in the VIEs and derivatives entered into with the VIEs, as well as the maximum exposure to loss associated with indemnifications made to investors in the VIEs.

3 The maximum exposure for Credit Linked Note VIEs and Convertible Bond Stripping VIEs is the asset fair value of the derivatives entered into with the VIEs as of December 31, 2004 and December 26, 2003, respectively.

4 This column reflects the asset size of the assets held in the VIE after taking into account intercompany eliminations and any balance sheet netting of assets and liabilities as permitted by FIN 39, Offsetting of Assets and Liabilities.

5 This column reflects the extent, if any, to which investors have recourse to Merrill Lynch beyond the assets held in the VIE.

6 Recourse to Merrill Lynch associated with Consolidated Tax Planning VIEs primarily relates to transactions where the investors in the debt issued by the VIEs have recourse to both the assets of the VIEs and to Merrill Lynch, as well as certain indemnifications made to the investors in the VIEs.

NO. 7 LOANS, NOTES, AND MORTGAGES RELATED COMMITMENTS TO EXTEND CREDIT

Loans, notes, and mortgages and related commitments to extend credit at December 31, 2004 and December 26, 2003, are presented below:

(dollars in millions)

	Loans		Commitments	
	2004	2003	**2004[1]**	2003
Consumer and small- and middle-market business:				
Mortgages	**$ 17,439**	$ 16,699	**$ 4,735**	$ 4,842
Small- and middle-market business	**6,450**	6,840	**3,780**	3,411
Other	**3,545**	3,646	**396**	603
Commercial:				
Secured	**23,675**	21,679	**26,046**	12,425
Unsecured investment grade	**1,444**	1,786	**15,333**	15,028
Unsecured non-investment grade	**992**	661	**1,549**	562
	53,545	51,311	**51,839**	36,871
Allowance for loan losses	**(283)**	(318)	–	–
Reserve for lending-related commitments	–	–	**(188)**	(169)
Total, net	**$ 53,262**	$ 50,993	**$ 51,651**	$ 36,702

1 See Note 11 for a maturity profile of these commitments.

Activity in the allowance for loan losses is presented below:

(dollars in millions)

	2004	2003	2002
Allowance for loan losses at beginning of year	**$ 318**	$ 285	$ 220
Provision for loan losses	**174**	76	190
Charge-offs	**(209)**	(46)	(123)
Recoveries	**4**	3	–
Net charge-offs	**(205)**	(43)	(123)
Other	**(4)**	–	(2)
Allowance for loan losses at end of year	**$ 283**	$ 318	$ 285

Consumer and small- and middle-market business loans, which are substantially secured, consisted of approximately 328,600 individual loans at December 31, 2004, and included residential mortgages, home equity loans, small- and middle-market business loans, and other loans to individuals for household, family, or other personal expenditures. Commercial loans, which at year-end 2004 consisted of approximately 7,300 separate loans, include syndicated loans and other loans to corporations and other businesses. Secured loans and commitments include lending activities made in the normal course of Merrill Lynch's securities and financing businesses. The

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principal balance of nonaccrual loans was $202 million at December 31, 2004. The investment grade and non-investment grade categorization is determined using the credit rating agency equivalent of internal credit ratings. Non-investment grade counterparties are those rated lower than BBB. Merrill Lynch enters into credit default swaps to mitigate credit exposure related to funded and unfunded unsecured commercial loans. The notional value of these swaps totaled $6.0 billion and $4.9 billion at December 31, 2004 and December 26, 2003, respectively. For information on credit risk management see Note 5 to the Consolidated Financial Statements.

The above amounts include $7.7 billion and $7.1 billion of loans held for sale at December 31, 2004 and December 26, 2003, respectively. Loans held for sale are loans that management expects to sell prior to maturity. At December 31, 2004, such loans consisted of $4.7 billion of consumer loans, primarily automobile loans and residential mortgages, and $3.0 billion of commercial loans, approximately 63% of which are to investment grade counterparties. At December 26, 2003, such loans consisted of $4.6 billion of consumer loans, primarily residential mortgages, and $2.5 billion of commercial loans, approximately 59% of which were to investment grade counterparties. For information on the accounting policy related to loans, notes and mortgages, see Note 1 to the Consolidated Financial Statements.

The fair values of loans, notes, and mortgages were approximately $53.6 billion and $51.1 billion at December 31, 2004 and December 26, 2003, respectively. Fair value for loans made in connection with private equity investing activities, consisting primarily of senior debt, is estimated using discounted cash flows. Merrill Lynch's estimate of fair value for other loans, notes, and mortgages is determined based on loan characteristics. For certain homogeneous categories of loans, including residential mortgages and home equity loans, fair value is estimated using market price quotations or previously executed transactions for securities backed by similar loans, adjusted for credit risk and other individual loan characteristics. For Merrill Lynch's variable-rate loan receivables, carrying value approximates fair value.

Merrill Lynch generally maintains collateral on secured loans in the form of securities, liens on real estate, perfected security interests in other assets of the borrower, and guarantees.

Merrill Lynch enters into commitments to extend credit, predominantly at variable interest rates, in connection with corporate finance and loan syndication transactions. Customers may also be extended loans or lines of credit collateralized by first and second mortgages on real estate, certain liquid assets of small businesses, or securities. Merrill Lynch considers commitments to be outstanding as of the date the commitment letter is issued. These commitments usually have a fixed expiration date and are contingent on certain contractual conditions that may require payment of a fee by the counterparty. Once commitments are drawn upon, Merrill Lynch may require the counterparty to post collateral depending on its creditworthiness and general market conditions.

The contractual amounts of these commitments represent the amounts at risk should the contract be fully drawn upon, the client defaults, and the value of the existing collateral becomes worthless. The total amount of outstanding commitments may not represent future cash requirements, as commitments may expire without being drawn upon. For a maturity profile of these and other commitments see Note 11 to the Consolidated Financial Statements.

NO. 8 COMMERCIAL PAPER AND SHORT- AND LONG-TERM BORROWINGS

ML & Co. is the primary issuer of all debt instruments. For local tax or regulatory reasons, debt is also issued by certain subsidiaries.

Total borrowings at December 31, 2004 and December 26, 2003, which is comprised of commercial paper and other short-term borrowings, long-term borrowings and long-term debt issued to TOPrS℠ partnerships, consisted of the following:

(dollars in millions)

	2004	2003
Senior debt issued by ML & Co.	**$ 102,892**	$ 80,159
Senior debt issued by subsidiaries — guaranteed by ML & Co.	**6,965**	5,441
Subordinated debt issued to TOPrS℠ partnerships	**3,092**	3,203
Other subsidiary financing — not guaranteed by ML & Co.	**1,309**	1,455
Other subsidiary financing — non-recourse	**9,297**	1,244
Total	**$ 123,555**	$ 91,502

These borrowing activities may create exposure to market risk, most notably interest rate, equity, and currency risk. Refer to Note 1 to the Consolidated Financial Statements, Derivatives section, for additional information on the use of derivatives to hedge these risks and the accounting for derivatives embedded in these instruments. Other subsidiary financing – non-recourse is primarily attributable to consolidated entities that are VIEs. Additional information regarding VIEs is provided in Note 6 to the Consolidated Financial Statements.

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Borrowings at December 31, 2004 and December 26, 2003, are presented below:

(dollars in millions)

	2004	2003
Commercial paper and other short-term borrowings		
Commercial paper	**$ 3,736**	$ 4,568
Other	**243**	432
Total	**$ 3,979**	$ 5,000
Long-term borrowings[1]		
Fixed-rate obligations[2, 4]	**$ 52,379**	$40,413
Variable-rate obligations[3, 4]	**64,680**	41,297
Zero-coupon contingent convertible debt (LYONs®)	**2,517**	4,792
Total	**$119,576**	$86,502

1 Includes long-term debt issued to TOPrS℠ partnerships.

2 Fixed-rate obligations are generally swapped to floating rates.

3 Variable interest rates are generally based on rates such as LIBOR, the U.S. Treasury Bill Rate, or the Federal Funds Rate.

4 Included are various equity-linked or other indexed instruments.

Long-term borrowings, including adjustments related to fair value hedges and various equity-linked or other indexed instruments, and long-term debt issued to TOPrS℠ partnerships at December 31, 2004, mature as follows:

(dollars in millions)

2005	**$ 20,163**	**17%**
2006	**16,125**	**13**
2007	**14,048**	**12**
2008	**9,055**	**8**
2009	**23,876**	**20**
2010 and thereafter	**36,309**	**30**
Total	**$119,576**	**100%**

Certain long-term borrowing agreements contain provisions whereby the borrowings are redeemable at the option of the holder at specified dates prior to maturity. These borrowings are reflected in the above table as maturing at their put dates, rather than their contractual maturities. Management believes, however, that a portion of such borrowings will remain outstanding beyond their earliest redemption date.

A limited number of notes whose coupon or repayment terms are linked to the performance of equity, other indices, or baskets of securities, may be accelerated based on the value of a referenced index or security, in which case Merrill Lynch may be required to immediately settle the obligation for cash or other securities. Merrill Lynch typically economically hedges these notes with positions in derivatives and/or in the underlying securities.

Except for the $2.5 billion of zero-coupon contingent convertible debt (LYONs®) that were outstanding at December 31, 2004 (which is described below), senior debt obligations issued by ML & Co. and senior debt issued by subsidiaries and guaranteed by ML & Co. do not contain provisions that could, upon an adverse change in ML & Co.'s credit rating, financial ratios, earnings, cash flows, or stock price, trigger a requirement for an early payment, additional collateral support, changes in terms, acceleration of maturity, or the creation of an additional financial obligation.

The fair values of long-term borrowings and related hedges approximated the carrying amounts at year-end 2004 and 2003.

The effective weighted-average interest rates for borrowings, at December 31, 2004 and December 26, 2003 were:

	2004	2003
Commercial paper and other short-term borrowings	**2.38%**	2.10%
Long-term borrowings, contractual rate	**3.14**	2.99
Long-term debt issued to TOPrS℠ partnerships	**7.31**	7.15

Merrill Lynch issues debt and certificates of deposit whose coupons or repayment terms are linked to the performance of individual equity securities, or baskets of securities, or equity or other indices (e.g., S&P 500). These instruments are assessed to determine if there is an embedded derivative that requires separate reporting and accounting.

On June 30, 2004, Merrill Lynch redeemed its Yen TOPrS ℠ debentures, which were due on June 30, 2019, pursuant to the optional redemption provisions stated in the terms and conditions of the debentures. Such redemption resulted in a cash payment of $107.1 million. No gain or loss was recognized on the transaction.

Long-Term Borrowings/LYONs®

Fixed Rate LYONs®

In May 2001, Merrill Lynch issued $4.6 billion of aggregate principal amount at maturity of fixed rate contingently convertible debt (Liquid Yield Option™ notes or LYONs®) at an issue price of $511.08 per note, which resulted in gross proceeds of approximately $2.4 billion. Each LYON® has a yield to maturity of 2.25% with a maturity value of $1,000 on May 23, 2031. Merrill Lynch is amortizing the issue discount using the effective interest method over the term of the LYONs®. The LYONs® are unsecured unsubordinated indebtedness of Merrill Lynch with a maturity of 30 years. Merrill Lynch will pay no interest prior to maturity unless, during any six-month period beginning June 1, 2006, the average market price of LYONs® for a certain period equals or exceeds 120% of the accreted value of the LYONs® ("contingent interest"). Holders of LYONs® may convert each security into 5.6787 shares (i.e., the "conversion rate") of common stock based on the conditions described in the Floating Rate LYONs® section below. The conversion trigger price for the fixed-rate LYONs® at December 31, 2004 was $116.00.

In May 2004, holders put back to Merrill Lynch fixed-rate LYONs ® with an aggregate principal amount at maturity of approximately $300 million. Merrill Lynch elected to pay the repurchase price for LYONs® in cash, and no gain or loss was recognized on the transaction. Pursuant to a supplemental indenture dated November 1, 2004, Merrill Lynch surrendered the right to elect to pay the repurchase price payable upon exercise of put rights in cash or common stock, or a combination thereof, and will be obligated to pay such amounts, when and if required, only in cash. In October 2004, Merrill Lynch repurchased outstanding fixed-rate LYONs® with an aggregate principal amount at maturity of $1.0 billion. In November 2004, Merrill Lynch amended the terms of the outstanding fixed-rate LYONs® to add December 10, 2004 as an additional date on which holders of fixed-rate LYONs® could require Merrill Lynch to repurchase the security for accreted value plus a premium of $1.00 per LYON®. As a result of the amendment, Merrill Lynch repurchased fixed-rate LYONs® with an aggregate principal amount at maturity of $2.9 billion and recognized $3 million of expense in the fourth quarter related to the put premium.

The supplemental indenture and amendment do not affect Merrill Lynch's obligation to deliver common stock upon conversion of the LYONs® that remain outstanding should they become convertible. At December 31, 2004, $391 million of aggregate principal amount at maturity fixed-rate LYONs® remain outstanding and, as a result, approximately 2.2 million shares have been included in 2004 and 2003 diluted earnings per share ("EPS") in accordance with the adoption of EITF Issue 04-8.

Floating Rate LYONs®

In March 2002, Merrill Lynch issued $2.3 billion of aggregate original principal amount of floating rate zero-coupon contingently convertible LYONs® at an issue price of $1,000 per note. At maturity, the LYONs® holder will receive the original principal amount of $1,000 increased daily by a variable rate. The LYONs® are unsecured and unsubordinated indebtedness of Merrill Lynch and mature in March 2032. Merrill Lynch will pay no interest prior to maturity unless, during any six-month period beginning June 1, 2007, the average market price of a LYONs® for a certain period equals or exceeds 120% of the accreted value of the LYONs® ("contingent interest"). Holders of LYONs® may convert each security into 13.8213 shares of Merrill Lynch common stock based on the conditions described below. Pursuant to a supplemental indenture dated November 1, 2004, Merrill Lynch surrendered the right to elect to pay the purchase price payable upon exercise of put rights in cash or common stock, or a combination thereof, and will be obligated to pay such amounts, when and if required, only in cash.

In November 2004, Merrill Lynch initiated an exchange offer of its outstanding floating-rate LYONs® for an equal amount of new LYONs®. The exchange offer was commenced as a result of the issuance of EITF Issue No. 04-8, as discussed more fully in Note 1 to the Consolidated Financial Statements, New Accounting Pronouncements. At the expiration of the exchange offer, approximately $2,232 million aggregate principal amount of old floating rate LYONs®, representing approximately 97% of the total principal amount outstanding, were tendered in exchange for an equal principal amount of new floating rate LYONs®. Upon conversion, holders of new floating rate LYONs® will receive the value of 13.8213 shares of Merrill Lynch common stock based on the conditions described below. This value will be paid in cash in an amount equal to the contingent principal amount of the new floating rate LYONs® on the conversion date and the remainder, at Merrill Lynch's election, will be paid in cash, common stock or a combination thereof. At December 31, 2004, $68 million aggregate principal amount of the original floating-rate LYONs® remained outstanding.

In addition, under the terms of the new floating rate LYONs®:

- The yield on the LYONs® will not exceed 5.5% per annum after March 13, 2008. The yield on the old LYONs® will not exceed 5.5% per annum after March 13, 2007.
- Merrill Lynch may redeem the LYONs® at any time on or after March 13, 2008. The old LYONs® are redeemable by Merrill Lynch anytime on or after March 13, 2007.
- Holders may require Merrill Lynch to repurchase the LYONs® on March 13, 2006 and 2008, in addition to March 13, 2005, 2007, 2012, 2017, 2022 and 2027 as permitted under the old LYONs®.
- Merrill Lynch will not pay contingent interest (as defined above) prior to June 1, 2008. The old LYONs® may pay contingent interest beginning June 1, 2007.
- In periods when contingent interest is payable, contingent interest each quarter will equal an annualized rate of .88% of the contingent principal amount. Under the terms of the old LYONs®, contingent interest is based on dividends paid on Merrill Lynch common stock.
- Until March 13, 2008, the conversion rate will be adjusted upon the issuance of a cash dividend to holders of Merrill Lynch common stock to the extent that such dividend exceeds $.16 per share per quarter. The old LYONs® have a conversion ratio that adjusts for extraordinary cash dividends.

All outstanding LYONs® convert under identical conditions as follows:

- If the closing price of Merrill Lynch common stock for at least 20 of the last 30 consecutive trading days ending on the last day of the calendar quarter is more than the conversion trigger price. The conversion trigger price for the floating-rate LYONs® at December 31, 2004 was $86.84. (That is, on and after January 1, 2005, a holder could have converted a floating-rate LYONs® into the value of 13.8213 shares of Merrill Lynch stock if the Merrill Lynch stock price had been greater than $86.84 for at least 20 of the last 30 consecutive trading days ending December 31, 2004).
- During any period in which the credit rating of LYONs® is Baa1 or lower by Moody's Investor Services, Inc., BBB+ or lower by Standard & Poor's Credit Market Services, or BBB+ or lower by Fitch, Inc.
- If the LYONs® are called for redemption.
- If Merrill Lynch is party to a consolidation, merger or binding share exchange, or
- If Merrill Lynch makes certain significant distributions, including a distribution that has a per share value equal to more than 15% of the sale price of its shares on the day preceding the declaration date for such distribution.

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Excluding the modification to the conversion rate adjustment feature mentioned above, the conditions under which both the old and new LYONs® conversion rate adjusts are identical. The conversion rate on both the old and new LYONs® adjusts upon:

- Dividends or distributions payable in Merrill Lynch common stock;
- Subdivisions, combinations or certain reclassifications of Merrill Lynch common stock;
- Distributions to all holders of Merrill Lynch common stock of certain rights to purchase the stock, for a period expiring within 60 days after the record date for such distribution, at less than the sale price of Merrill Lynch stock at that time; or
- Distribution to holders of Merrill Lynch common stock of Merrill Lynch assets, debt securities or certain rights to purchase Merrill Lynch securities (excluding cash dividends that are not extraordinary dividends).

As of December 31, 2004, and December 26, 2003 the value of the conversion option in the new floating-rate LYONs® was not in the money and, as a result, no shares have been included in the computation of diluted EPS. However, 1.0 million shares related to the old LYONs® that remain outstanding have been included in 2004 and 2003 diluted EPS, in accordance with the adoption of EITF Issue 04-8, as discussed more fully in Note 1 to the Consolidated Financial Statements, New Accounting Pronouncements.

Long-Term Debt Issued to TOPrS℠ Partnerships

Long-term debt issued to TOPrS℠ partnerships represents long-term debt payable to the partnerships that issued TOPrS℠. TOPrS℠ were issued to investors by trusts created by Merrill Lynch and are registered with the Securities and Exchange Commission. Using the issuance proceeds, the trusts purchased Partnership Preferred Securities, representing limited partnership interests. Using the purchase proceeds, the limited partnerships extended loans to ML & Co. and one or more subsidiaries of ML & Co. ML & Co. has guaranteed, on a subordinated basis, the payment in full of all distributions and other payments on the TOPrS℠ to the extent that the trusts have funds legally available. This guarantee and a similar partnership distribution guarantee are subordinated to all other liabilities of ML & Co. and rank equally with preferred stock of ML & Co. Merrill Lynch has accounted for its issuance of TOPrS℠ in accordance with the provisions of FIN 46R and, as a result, the partnerships and trusts that issue these securities have been deconsolidated in Merrill Lynch's financial statements.

Borrowing Facilities

Merrill Lynch has a committed, senior, unsecured bank credit facility aggregating $3.0 billion under an agreement with a syndicate of banks. The agreement contains covenants requiring, among other things, that Merrill Lynch maintain specified levels of net worth, as defined in the agreement, on the date of an advance. At December 31, 2004, this credit facility was not drawn upon. The credit quality, amounts, and terms of this credit facility are continually monitored and modified as warranted by business conditions. The credit facility will mature in May 2005.

Merrill Lynch also maintains a committed, secured credit facility with a financial institution that totaled $6.25 billion at December 31, 2004. The secured facility may be collateralized by government obligations eligible for pledging. The facility expires in 2014, but may be terminated with at least nine months notice by either party. At December 31, 2004, there were no borrowings outstanding under this facility. Refer to the discussion on variable interest entities in Note 6 to the Consolidated Financial Statements for additional information.

NO. 9 DEPOSITS

Deposits at December 31, 2004 and December 26, 2003, are presented below:

(dollars in millions)

	2004	2003
U.S.		
Savings Deposits	**$65,019**	$64,197
Time Deposits	**688**	1,212
Total U.S. Deposits	**65,707**	65,409
Non-U.S.		
Non-interest bearing	**687**	359
Interest bearing	**13,352**	13,689
Total Non-U.S. Deposits	**14,039**	14,048
Total Deposits	**$79,746**	$79,457

The effective weighted-average interest rates for deposits, which include the impact of hedges, at December 31, 2004 and December 26, 2003, were 0.96% and 0.78%, respectively. The fair values of deposits approximated carrying values at December 31, 2004 and December 26, 2003.

NO. 10 STOCKHOLDERS' EQUITY AND EARNINGS PER SHARE

Preferred Equity

ML & Co. is authorized to issue 25,000,000 shares of undesignated preferred stock, $1.00 par value per share. All shares of currently outstanding preferred stock constitute one and the same class that have equal rank and priority over common stockholders as to dividends and in the event of liquidation.

Floating Rate Non-Cumulative Preferred Stock, Series 1

On November 1, 2004 ML & Co. issued 25,200,000 Depository Shares, each representing a one-twelve-hundredth interest in a share of Floating Rate Non-Cumulative Preferred Stock, Series 1, liquidation preference value of $30,000 per share ("Preferred Stock, Series 1"). The Preferred Stock, Series 1 consists of 21,000 shares with an aggregate liquidation preference of $630 million.

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Dividends on the Preferred Stock, Series 1 are non-cumulative and are payable quarterly when, and if, declared by the Board of Directors. The Preferred Stock, Series 1 is perpetual and redeemable on or after November 28, 2009, at the option of ML & Co., in whole or in part, at a redemption price of $30,000 per share, plus any declared and unpaid dividends, without accumulation of any undeclared dividends.

9% Cumulative Preferred Stock, Series A

In 1994, ML & Co. issued 17,000,000 Depository Shares, each representing a one-four-hundredth interest in a share of 9% Cumulative Preferred Stock, Series A, liquidation preference value of $10,000 per share ("9% Preferred Stock"). The 9% Preferred Stock is a single series consisting of 42,500 shares with an aggregate liquidation preference of $425 million, all of which was outstanding at year-end 2003 and 2002. Dividends on the 9% Preferred Stock were cumulative from the date of original issue and payable quarterly when declared by the authority of the Board of Directors. On December 30, 2004, ML & Co. redeemed all of its outstanding 9% Cumulative Preferred Stock at a redemption price equal to $10,000 per share, plus accrued and unpaid dividends. No gain or loss was recognized on redemption.

Common Stock

Dividends paid on common stock were $0.64 per share in 2004, 2003 and 2002.

In 2004, Merrill Lynch authorized two share repurchase programs to provide greater flexibility to return capital to shareholders. For the year ended December 31, 2004, Merrill Lynch repurchased a cumulative total of 54.0 million shares of common stock at a cost of $2,968 million, completing the $2 billion repurchase authorized in February 2004 and utilizing $968 million of the additional $2 billion repurchase authorized in July 2004.

Shares Exchangeable into Common Stock

In 1998, Merrill Lynch & Co., Canada Ltd. issued 9,662,448 Exchangeable Shares in connection with Merrill Lynch's merger with Midland Walwyn Inc. Holders of Exchangeable Shares have dividend, voting, and other rights equivalent to those of ML & Co. common stockholders. Exchangeable Shares may be exchanged at any time, at the option of the holder, on a one-for-one basis for ML & Co. common stock. Merrill Lynch may redeem all outstanding Exchangeable Shares for ML & Co. common stock after January 31, 2011, or earlier under certain circumstances.

Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss represents cumulative gains and losses on items that are not reflected in earnings. The balances at December 31, 2004 and December 26, 2003 are as follows:

(dollars in millions)

	2004	2003
Foreign currency translation adjustment		
Unrealized (losses), net of gains	**$(1,117)**	$ (758)
Income taxes	**828**	457
Total	**(289)**	(301)
Unrealized gains (losses) on investment securities available-for-sale		
Unrealized (losses), net of gains	**(128)**	(158)
Adjustments for:		
Policyholder liabilities	**(17)**	(36)
Deferred policy acquisition costs	**2**	2
Income taxes	**52**	81
Total	**(91)**	(111)
Deferred gains on cash flow hedges		
Deferred gains	**22**	19
Income taxes	**(1)**	(8)
Total	**21**	11
Minimum pension liability		
Minimum pension liability	**(178)**	(216)
Income taxes	**56**	66
Total	**(122)**	(150)
Total accumulated other comprehensive loss	**$ (481)**	$ (551)

Stockholder Rights Plan

In 1997, the Board of Directors approved and adopted the amended and restated Stockholder Rights Plan. The amended and restated Stockholder Rights Plan provides for the distribution of preferred purchase rights ("Rights") to common stockholders. The Rights separate from the common stock 10 days following the earlier of: (a) an announcement of an acquisition by a person or group ("acquiring party") of 15% or more of the outstanding common shares of ML & Co., or (b) the commencement of a tender or exchange offer for 15% or more of the common shares outstanding. One Right is attached to each outstanding share of common stock and will attach to all subsequently issued shares. Each Right entitles the holder to purchase 1/100 of a share (a "Unit") of Series A Junior Preferred Stock, par value $1.00 per share, at an exercise price of $300 per Unit at any time after the distribution of the Rights. The Units are nonredeemable and have voting privileges and certain preferential dividend rights. The exercise price and the number of Units issuable are subject to adjustment to prevent dilution.

If, after the Rights have been distributed, either the acquiring party holds 15% or more of ML & Co.'s outstanding shares or ML & Co. is a party to a business combination or other specifically defined transaction, each Right (other than those held by the acquiring party) will entitle the holder to receive, upon exercise, a Unit of preferred stock or shares of common stock of the surviving company with a value equal to two times the exercise price of the Right. The Rights expire in 2007, and are redeemable at the option of a majority of the directors of ML & Co. at $.01 per Right at any time until the 10th day following an announcement of the acquisition of 15% or more of ML & Co.'s common stock.

Earnings Per Share

Basic EPS is calculated by dividing earnings available to common stockholders by the weighted-average number of common shares outstanding. Diluted EPS is similar to basic EPS, but adjusts for the effect of the potential issuance of common shares. The following table presents the computations of basic and diluted EPS:

(dollars in millions, except per share amounts)

	2004	2003	2002
Net earnings	**$ 4,436**	$ 3,836	$ 1,708
Preferred stock dividends	**(41)**	(39)	(38)
Net earnings applicable to common shareholders — for basic EPS	**$ 4,395**	$ 3,797	$ 1,670
Interest expense on LYONs®[1]	**3**	3	3
Net earnings applicable to common shareholders — for diluted EPS	**$ 4,398**	$ 3,800	$ 1,673
(shares in thousands)			
Weighted-average basic shares outstanding[2]	**912,935**	900,711	862,318
Effect of dilutive instruments[3]			
Employee stock options	**42,178**	32,807	32,779
FACAAP shares	**23,591**	22,995	23,990
Restricted shares and units	**21,917**	21,215	25,141
Convertible LYONs®[1]	**3,158**	3,158	2,983
ESPP shares	**–**	61	71
Dilutive potential common shares	**90,844**	80,236	84,964
Diluted shares[4]	**1,003,779**	980,947	947,282
Basic EPS	**$ 4.81**	$ 4.22	$ 1.94
Diluted EPS	**4.38**	3.87	1.77

1 See Note 8 to the Consolidated Financial Statements for further information on LYONs®.

2 Includes shares exchangeable into common stock.

3 See Note 13 to the Consolidated Financial Statements for a description of these instruments and issuances subsequent to December 31, 2004.

4 At year-end 2004, 2003, and 2002, there were 52,875, 103,857 and 140,841 instruments, respectively, that were considered antidilutive and thus were not included in the above calculations. In addition, the value of the conversion option in the new floating rate LYONs® was not in the money and, as a result, no shares have been included in the computation of diluted EPS in any period. See Note 8 to the Consolidated Financial Statements for further information on LYONs®.

NO. 11 COMMITMENTS, CONTINGENCIES AND GUARANTEES

Litigation

Merrill Lynch has been named as a defendant in various legal actions, including arbitrations, class actions, and other litigation arising from its activities as a global diversified financial services institution. The general decline of equity securities prices between 2000 and 2003 has resulted in increased legal actions against many firms, including Merrill Lynch, and has resulted in higher professional fees and litigation expenses than those incurred in the past.

Some of the legal actions include claims for substantial compensatory and/or punitive damages or claims for indeterminate amounts of damages. In some cases, the issuers who would otherwise be the primary defendants in such cases are bankrupt or otherwise in financial distress. Merrill Lynch is also involved in investigations and/or proceedings by governmental and self-regulatory agencies. The number of these investigations has also increased in recent years with regard to many firms, including Merrill Lynch.

Given the number of these matters, some are likely to result in adverse judgments, settlements, penalties, injunctions, fines, or other relief. Merrill Lynch believes it has strong defenses to, and where appropriate, will vigorously contest many of these matters. In accordance with SFAS No. 5, *Accounting for Contingencies,* when resolution of cases is both probable and estimable, Merrill Lynch will accrue a liability. In many lawsuits and arbitrations, including class actions, it is not possible to determine whether a liability has been incurred or to estimate the ultimate or minimum amount of that liability until the case is close to resolution, in which case no accrual is made until that time. In view of the inherent difficulty of predicting the outcome of such matters, particularly in cases in which claimants seek substantial or indeterminate damages, Merrill Lynch cannot predict what the eventual loss or range of loss related to such matters will be. Merrill Lynch continues to assess these matters and believes, based on information available to it, that the resolution of these matters will not have a material adverse effect on the financial condition of Merrill Lynch as set forth in the Consolidated Financial Statements, but may be material to Merrill Lynch's operating results or cash flows for any particular period and may impact ML & Co.'s credit ratings.

The most significant lawsuits against Merrill Lynch are the following:

IPO Allocation Litigation

In re Initial Public Offering Securities Litigation: Merrill Lynch has been named as one of the defendants in approximately 110 securities class action complaints alleging that dozens of underwriting defendants, including Merrill Lynch, artificially inflated and maintained the stock prices of the relevant securities by creating an artificially high aftermarket demand for shares. On October 13, 2004, the district court issued an order allowing certain of these cases to proceed against the underwriters as class actions. The underwriters, including Merrill Lynch, are appealing this decision to the Court of Appeals. On February 15, 2005, the court approved a settlement between plaintiffs and issuer defendants under which insurers of the issuers have guaranteed recovery of at least $1 billion by class members, and the settling issuer defendants have assigned to the class members certain claims they may have against the underwriters.

Enron Litigation

Newby v. Enron Corp. et. al.: On April 8, 2002, Merrill Lynch was added as a defendant in a consolidated class action filed in the United States District Court for the Southern District of Texas against 69 defendants purportedly on behalf of the purchasers of

Enron's publicly traded equity and debt securities during the period October 19, 1998 through November 27, 2001. The complaint alleges, among other things, that Merrill Lynch engaged in improper transactions in the fourth quarter of 1999 that helped Enron misrepresent its earnings and revenues in the fourth quarter of 1999. The complaint also alleges that Merrill Lynch violated the securities laws in connection with its role as an underwriter of Enron stock, its research analyst coverage of Enron stock, and its role as placement agent for and limited partner in an Enron-controlled partnership called LJM2. On December 19, 2002 and March 29, 2004, the court denied Merrill Lynch's motions to dismiss. The defendants, including Merrill Lynch, are awaiting a decision on plaintiffs' motion for class certification, which the defendants have opposed.

In re Enron Corp.: On September 24, 2003, Enron Corporation filed an adversary proceeding in the United States Bankruptcy Court for the Southern District of New York against a large collection of financial institutions, including Merrill Lynch. An amended complaint was filed on December 5, 2003. The complaint alleges that the conduct of Merrill Lynch and other bank defendants contributed to Enron's bankruptcy.

Other Litigation: Dozens of other actions have been brought against Merrill Lynch and other investment firms in connection with their Enron-related activities, including actions by state pension plans and other state investment entities that purchased Enron securities and actions by other purchasers of Enron securities. There has been no adjudication of the merits of these claims.

Government Actions: On November 3, 2004, a jury in Houston, Texas convicted four former Merrill Lynch employees of criminal misconduct in connection with a Nigerian barge transaction that the government alleged helped Enron inflate its 1999 earnings by $12 million. The jury also found that the transaction led to investor losses of $13.7 million. In 2003, Merrill Lynch agreed to pay $80 million to settle SEC charges that it aided and abetted Enron's fraud by engaging in two improper year-end transactions in 1999. The $80 million paid in connection with the settlement with the SEC will be made available to settle investor claims. In September 2003, the United States Department of Justice agreed not to prosecute Merrill Lynch for crimes that may have been committed by its former employees related to certain transactions with Enron, subject to certain understandings, including Merrill Lynch's continued cooperation with the Department, its acceptance of responsibility for conduct of its former employees, and its agreement to adopt and implement new policies and procedures related to the integrity of client and counterparty financial statements, complex structured finance transactions and year-end transactions.

Research Litigation

In re Merrill Lynch & Co., Inc. Research Reports Securities Litigation: Merrill Lynch has been named in over 30 research-related class actions brought in or transferred to the United States District Court for the Southern District of New York. These actions challenge the independence and objectivity of Merrill Lynch's research recommendations and related disclosures.

On June 30, 2003, the district court granted Merrill Lynch's motion to dismiss the claims related to 24/7 Real Media, Inc. and Interliant, Inc. On January 20, 2005, the Court of Appeals upheld the dismissals of the 24/7 Real Media and Interliant complaints on the ground that plaintiffs had failed to plead facts showing that the losses they incurred were caused by the conduct they alleged.

On July 2, 2003, the district court granted Merrill Lynch's motion to dismiss the claims related to the Global Technology Fund. On October 22, 2003, the court granted Merrill Lynch's motion to dismiss the claims related to the Focus Twenty Fund. Plaintiffs have appealed the dismissals to the United States Court of Appeals for the Second Circuit. On October 29, 2003, the court granted Merrill Lynch's motion to dismiss the claims related to eToys, Inc., Homestore.com, Internet Strategies Fund, iVillage Inc., Lifeminders, LookSmart Ltd., Openwave Systems, Inc., Pets.com, Inc., and Quokka Sports. Merrill Lynch has moved or expects to move to dismiss the remaining research class actions.

Commitments

At December 31, 2004, Merrill Lynch commitments had the following expirations:

(dollars in millions)	Commitment expiration				
	Total	**Less than 1 year**	**1 - 3 years**	**3+ - 5 years**	**Over 5 years**
Commitments to extend credit[1]	**$ 51,839**	**$ 24,178**	**$ 9,700**	**$ 12,809**	**$ 5,152**
Purchasing and other commitments	**3,808**	**2,805**	**498**	**371**	**134**
Operating leases	**3,667**	**547**	**1,028**	**845**	**1,247**
Commitments to enter into resale agreements	**2,415**	**2,415**	**–**	**–**	**–**
Total	**$ 61,729**	**$ 29,945**	**$ 11,226**	**$ 14,025**	**$ 6,533**

1 See Note 7 to the Consolidated Financial Statements for additional details.

Lending Commitments

Merrill Lynch enters into commitments to extend credit, predominantly at variable interest rates, in connection with certain merchant banking, corporate finance, and loan syndication transactions. Clients may also be extended loans or lines of credit collateralized by first and second mortgages on real estate, certain liquid assets of small businesses, or securities. These commitments usually have a fixed expiration date and are contingent on certain contractual conditions that may require payment of a fee by the counterparty. Once commitments are drawn upon, Merrill Lynch may require the counterparty to post collateral depending upon creditworthiness and general market conditions.

The contractual amounts of these commitments represent the amounts at risk should the contract be fully drawn upon, the client defaults, and the value of the existing collateral becomes worthless. The total amount of outstanding commitments may not represent future cash requirements, as commitments may expire without being drawn upon.

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Purchasing and Other Commitments

In the normal course of business, Merrill Lynch enters into commitments for underwriting transactions. Settlement of these transactions as of December 31, 2004 would not have a material effect on the consolidated financial condition of Merrill Lynch.

In connection with trading activities, Merrill Lynch enters into commitments to enter into resale agreements.

In the normal course of business, Merrill Lynch enters into institutional and margin-lending transactions, some of which is on a committed basis, but most of which is not. Margin lending on a committed basis only includes amounts where Merrill Lynch has a binding commitment. These binding margin lending commitments totaled $303 million at December 31, 2004 and $459 million at December 26, 2003.

Merrill Lynch has commitments to purchase partnership interests, primarily related to private equity investing activities, of $973 million and $426 million at December 31, 2004 and December 26, 2003, respectively. Merrill Lynch also has entered into agreements with providers of market data, communications, and systems consulting services. At December 31, 2004 and December 26, 2003, minimum fee commitments over the remaining life of these agreements aggregated $457 million and $503 million, respectively. Merrill Lynch has entered into other purchasing commitments totaling $2.1 billion and $7.0 billion at December 31, 2004 and December 26, 2003, respectively.

Leases

Merrill Lynch has entered into various noncancellable long-term lease agreements for premises that expire through 2024. Merrill Lynch has also entered into various noncancellable lease agreements, which are primarily commitments of less than one year under equipment leases.

In 1999 and 2000, Merrill Lynch established two SPEs to finance its Hopewell, New Jersey campus and an aircraft. Merrill Lynch leased the facilities and the aircraft from the SPEs. The total amount of funds raised by the SPEs to finance these transactions was $383 million. These SPEs were not consolidated by Merrill Lynch pursuant to the accounting guidance that was then in effect. In the second quarter of 2003, the facilities and aircraft owned by these SPEs were acquired by a newly created limited partnership, which is unaffiliated with Merrill Lynch. The limited partnership acquired the assets subject to the leases with Merrill Lynch as well as the existing indebtedness incurred by the original SPEs. The proceeds from the sale of the assets to the limited partnership, net of the debt assumed by the limited partnership, were used to repay the equity investors in the original SPEs. After the transaction was completed, the original SPEs were dissolved. The limited partnership has also entered into leases with third-parties unrelated to Merrill Lynch.

The leases with the limited partnership were renewed in 2004 and mature in 2009. Each lease has a renewal term to 2014. In addition, Merrill Lynch has entered into guarantees with the limited partnership, whereby if Merrill Lynch does not renew the lease or purchase the assets under its lease at the end of either the initial or the renewal lease term, the underlying assets will be sold to a third party, and Merrill Lynch has guaranteed that the proceeds of such sale will amount to at least 84% of the acquisition cost of the assets. The maximum exposure to Merrill Lynch as a result of this residual value guarantee is approximately $322 million as of December 31, 2004. As of December 31, 2004, the carrying value of the liability on the Consolidated Financial Statements is $23 million. Merrill Lynch's residual value guarantee does not comprise more than half of the limited partnership's assets. Merrill Lynch had entered into a similar residual value guarantee under the prior lease agreements; the maximum exposure under the previous guarantee was approximately $325 million as of December 26, 2003.

The limited partnership does not meet the definition of a VIE as defined in FIN 46R. Merrill Lynch does not have a partnership or other interest in the limited partnership. Accordingly, Merrill Lynch is not required to consolidate the limited partnership in its financial statements. The leases with the limited partnership are accounted for as operating leases.

At December 31, 2004, future noncancellable minimum rental commitments under leases with remaining terms exceeding one year, including lease payments to the limited partnerships discussed above are as follows:

(dollars in millions)

	WFC[1]	Other	Total
2005	**$ 179**	**$ 368**	**$ 547**
2006	**179**	**357**	**536**
2007	**179**	**313**	**492**
2008	**179**	**267**	**446**
2009	**179**	**220**	**399**
2010 and thereafter	**669**	**578**	**1,247**
Total	**$ 1,564**	**$ 2,103**	**$ 3,667**

1 World Financial Center Headquarters.

The minimum rental commitments shown above have not been reduced by $795 million of minimum sublease rentals to be received in the future under noncancellable subleases. Certain leases contain renewal or purchase options or escalation clauses providing for increased rental payments based upon maintenance, utility, and tax increases.

Net rent expense for each of the last three years is presented below:

(dollars in millions)

	2004	2003	2002
Rent expense	**$ 582**	$ 531	$ 538
Sublease revenue	**(137)**	(93)	(92)
Net rent expense	**$ 445**	$ 438	$ 446

Merrill Lynch also obtains commercial letters of credit from issuing banks to satisfy various counterparty collateral requirements in lieu of depositing cash or securities collateral. Commercial letters of credit aggregated $580 million and $507 million at December 31, 2004 and December 26, 2003, respectively.

Guarantees

Merrill Lynch issues various guarantees to counterparties in connection with certain leasing, securitization and other transactions. In addition, Merrill Lynch enters into certain derivative contracts that meet the accounting definition of a guarantee under FIN 45. FIN 45 defines guarantees to include derivative contracts that contingently require a guarantor to make payment to a guaranteed party based on changes in an underlying (such as changes in the value of interest rates, security prices, currency rates, commodity prices, indices, etc.), that relate to an asset, liability or equity security of a guaranteed party. Derivatives that meet the FIN 45 definition of guarantees include certain written options and credit default swaps (contracts that require Merrill Lynch to pay the counterparty the par value of a referenced security if that referenced security defaults). Merrill Lynch does not track, for accounting purposes, whether its clients enter into these derivative contracts for speculative or hedging purposes. Accordingly, Merrill Lynch has disclosed information about all credit default swaps and certain types of written options that can potentially be used by clients to protect against changes in an underlying, regardless of how the contracts are used by the client.

For certain derivative contracts, such as written interest rate caps and written currency options, the maximum payout could theoretically be unlimited, because, for example, the rise in interest rates or changes in foreign exchange rates could theoretically be unlimited. In addition, Merrill Lynch does not monitor its exposure to derivatives based on the theoretical maximum payout because that measure does not take into consideration the probability of the occurrence. As such, rather than including the maximum payout, the notional value of these contracts has been included to provide information about the magnitude of involvement with these types of contracts. However, it should be noted that the notional value is not a reliable indicator of Merrill Lynch's exposure to these contracts.

Merrill Lynch records all derivative transactions at fair value on its Consolidated Balance Sheets. As previously noted, Merrill Lynch does not monitor its exposure to derivative contracts in terms of maximum payout. Instead, a risk framework is used to define risk tolerances and establish limits to ensure that certain risk-related losses occur within acceptable, predefined limits. Merrill Lynch economically hedges its exposure to these contracts by entering into a variety of offsetting derivative contracts and security positions. See the Derivatives section of Note 1 to the Consolidated Financial Statements for further discussion of risk management of derivatives.

Merrill Lynch also provides guarantees to SPEs in the form of liquidity facilities, credit default protection and residual value guarantees for equipment leasing entities.

The liquidity facilities and credit default protection relate primarily to municipal bond securitization SPEs. Merrill Lynch acts as liquidity provider to municipal bond securitization SPEs. Specifically, the holders of beneficial interests issued by these SPEs have the right to tender their interests for purchase by Merrill Lynch on specified dates at a specified price. If the beneficial interests are not successfully remarketed, the holders of beneficial interests are paid from funds drawn under a standby facility issued by Merrill Lynch (or by third-party financial institutions where Merrill Lynch has agreed to reimburse the financial institution if a draw occurs). If the standby facility is drawn, Merrill Lynch may claim the underlying assets held by the SPEs. In general, standby facilities that are not coupled with default protection are not exercisable in the event of a downgrade below investment grade or default of the assets held by the SPEs. In addition, as of December 31, 2004, the value of the assets held by the SPE plus any additional collateral pledged to Merrill Lynch exceeds the amount of beneficial interests issued, which provides additional support to Merrill Lynch in the event that the standby facility is drawn. As of December 31, 2004, the maximum payout if the standby facilities are drawn was $18.0 billion and the value of the municipal bond assets to which Merrill Lynch has recourse in the event of a draw was $21.8 billion. However, it should be noted that these two amounts are not directly comparable, as the assets to which Merrill Lynch has recourse are on a deal-by-deal basis and are not part of a cross-collateralized pool.

In certain instances, Merrill Lynch also provides default protection in addition to liquidity facilities. Specifically, in the event that an issuer of a municipal bond held by the SPE defaults on any payment of principal and/or interest when due, the payments on the bonds will be made to beneficial interest holders from an irrevocable guarantee by Merrill Lynch (or by third-party financial institutions where Merrill Lynch has agreed to reimburse the financial institution if losses occur). If the default protection is drawn, Merrill Lynch may claim the underlying assets held by the SPEs. As of December 31, 2004, the maximum payout if an issuer defaults was $3.3 billion, and the value of the assets to which Merrill Lynch has recourse, in the event that an issuer of a municipal bond held by the SPE defaults on any payment of principal and/or interest when due, was $4.3 billion; however, as described in the preceding paragraph, these two amounts are not directly comparable as the assets to which Merrill Lynch has recourse are not part of a cross-collateralized pool.

Further, to protect against declines in the value of the assets held by SPEs, for which Merrill Lynch provides either liquidity facilities or default protection, Merrill Lynch economically hedges its exposure through derivative positions that principally offset the risk of loss arising from these guarantees.

Merrill Lynch also provides residual value guarantees to leasing SPEs where either Merrill Lynch or a third-party is the lessee. For transactions where Merrill Lynch is not the lessee, the guarantee provides loss coverage for any shortfalls in the proceeds from asset sales greater than 75-90% of the adjusted acquisition price, as defined. As of December 31, 2004, the value of the assets for which Merrill Lynch provides residual value guarantees

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and is not the lessee was $713 million. Where Merrill Lynch is the lessee, it provides a guarantee that any proceeds from the sale of the assets will amount to at least 84% of the adjusted acquisition cost, as defined.

Merrill Lynch also enters into reimbursement agreements in conjunction with sales of loans originated under its Mortgage 100SM program. Under this program, borrowers can pledge marketable securities in lieu of making a cash down payment. Upon sale of these mortgage loans, purchasers may require a surety bond that reimburses for certain shortfalls in the borrowers' securities accounts. Merrill Lynch provides this reimbursement through a financial intermediary. Merrill Lynch requires borrowers to meet daily collateral calls to ensure that the securities pledged as down payment are sufficient at all times. Merrill Lynch believes that its potential for loss under these arrangements is remote. Accordingly, no liability is recorded in the Consolidated Financial Statements.

In addition, Merrill Lynch makes guarantees to counterparties in the form of standby letters of credit. Merrill Lynch holds marketable securities of $567 million as collateral to secure these guarantees. In addition, standby letters of credit include $532 million of financial guarantees for which Merrill Lynch has recourse to the guaranteed party upon draw down.

Further, in conjunction with certain principal-protected mutual funds, Merrill Lynch guarantees the return of the initial principal investment at the termination date of the fund. These funds are generally managed based on a formula that requires the fund to hold a combination of general investments and highly liquid risk-free assets that, when combined, will result in the return of principal at the maturity date unless there is a significant market event. At December 31, 2004, Merrill Lynch's maximum potential exposure to loss with respect to these guarantees is $634 million assuming that the funds are invested exclusively in other general investments (i.e., the funds hold no risk-free assets), and that those other general investments suffer a total loss. As such, this measure significantly overstates Merrill Lynch's exposure or expected loss at December 31, 2004. These transactions met the SFAS No. 149 definition of derivatives and, as such, were carried as a liability with a fair value of $15 million at December 31, 2004.

Merrill Lynch also provides indemnifications related to the U.S. tax treatment of certain foreign tax planning transactions. The maximum exposure to loss associated with these transactions is $157 million; however, Merrill Lynch believes that the likelihood of loss with respect to these arrangements is remote.

These guarantees and their expiration are summarized at December 31, 2004 as follows:

(dollars in millions)

	Maximum Payout/ Notional	Less than 1 year	1 - 3 years	3+- 5 years	Over 5 years	Carrying Value
Derivative contracts[1]	$ 1,254,870	$ 362,416	$ 339,704	$ 228,542	$ 324,208	$ 26,534
Liquidity facilities with SPEs[2]	17,988	17,354	634	–	–	32
Liquidity and default facilities with SPEs[2]	3,289	2,481	563	–	245	42
Residual value guarantees[3]	1,078	50	3	487	538	30
Standby letters of credit and other guarantees[4, 5, 6]	3,091	1,185	399	133	1,374	19

1 As noted above, the notional value of derivative contracts is provided rather than the maximum payout amount, although the notional value should not be considered as a reliable indicator of Merrill Lynch's exposure to these contracts.

2 Amounts relate primarily to facilities provided to municipal bond securitization SPEs. Includes $4.7 billion of guarantees provided to SPEs by third-party financial institutions where Merrill Lynch has agreed to reimburse the financial institution if losses occur, and has up to one year to fund losses.

3 Includes residual value guarantees associated with the Hopewell campus and aircraft leases of $322 million.

4 Includes $570 million of reimbursement agreements with the Mortgage 100SM program.

5 Includes guarantees related to principal-protected mutual funds.

6 Includes certain indemnifications related to foreign tax planning strategies.

In addition to the guarantees described above, Merrill Lynch also provides guarantees to securities clearinghouses and exchanges. Under the standard membership agreement, members are required to guarantee the performance of other members. Under the agreements, if another member becomes unable to satisfy its obligations to the clearinghouse, other members would be required to meet shortfalls. Merrill Lynch's liability under these arrangements is not quantifiable and could exceed the cash and securities it has posted as collateral. However, the potential for Merrill Lynch to be required to make payments under these arrangements is remote. Accordingly, no liability is carried in the Consolidated Financial Statements for these arrangements.

In connection with its prime brokerage business, Merrill Lynch provides to counterparties guarantees of the performance of its prime brokerage clients. Under these arrangements, Merrill Lynch stands ready to meet the obligations of its customers with respect to securities transactions. If the customer fails to fulfill its obligation, Merrill Lynch must fulfill the customer's obligation with the counterparty. Merrill Lynch is secured by the assets in the customer's account as well as any proceeds received from the securities transaction entered into by Merrill Lynch on behalf of the customer. No contingent liability is carried in the Consolidated Financial Statements for these transactions as the potential for Merrill Lynch to be required to make payments under these arrangements is remote.

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In connection with providing supplementary protection to its customers, MLPF&S holds insurance in excess of that furnished by the Securities Investor Protection Corporation ("SIPC"). The policy provides coverage up to $600 million in the aggregate (including up to $1.9 million per customer for cash) for losses incurred by customers in excess of the SIPC limits. ML & Co. provides full indemnity to the policy provider syndicate against any losses as a result of this agreement. No contingent liability is carried in the Consolidated Financial Statements for this indemnification as the potential for Merrill Lynch to be required to make payments under this agreement is remote.

In connection with its securities clearing business, Merrill Lynch performs securities execution, clearance and settlement services on behalf of other broker-dealer clients for whom it commits to settle trades submitted for or by such clients, with the applicable clearinghouse; trades are submitted either individually, in groups or series or, if specific arrangements are made with a particular clearinghouse and client, all transactions with such clearing entity by such client. Merrill Lynch's liability under these arrangements is not quantifiable and could exceed any cash deposit made by a client. However, the potential for Merrill Lynch to be required to make unreimbursed payments under these arrangements is remote due to the contractual capital requirements associated with clients' activity and the regular review of clients' capital. Accordingly, no liability is carried in the Consolidated Financial Statements for these transactions.

In connection with certain European mergers and acquisition transactions, Merrill Lynch, in its capacity as financial advisor, in some cases may be required by law to provide a guarantee that the acquiring entity has or can obtain or issue sufficient funds or securities to complete the transaction. These arrangements are short-term in nature, extending from the commencement of the offer through the termination or closing. Where guarantees are required or implied by law, Merrill Lynch engages in a credit review of the acquirer, obtains indemnification and requests other contractual protections where appropriate. Merrill Lynch's maximum liability equals the required funding for each transaction and varies throughout the year depending upon the size and number of open transactions. Based on the review procedures performed, management believes the likelihood of being required to pay under these arrangements is remote. Accordingly, no liability is recorded in the Consolidated Financial Statements for these transactions.

In the course of its business, Merrill Lynch routinely indemnifies investors for certain taxes, including U.S. and foreign withholding taxes on interest and other payments made on securities, swaps and other derivatives. These additional payments would be required upon a change in law or interpretation thereof. Merrill Lynch's maximum exposure under these indemnifications is not quantifiable. Merrill Lynch believes that the potential for such an adverse change is remote. As such, no liability is recorded in the Consolidated Financial Statements.

In connection with certain asset sales and securitization transactions, Merrill Lynch typically makes representations and warranties about the underlying assets conforming to specified guidelines. If the underlying assets do not conform to the specifications, Merrill Lynch may have an obligation to repurchase the assets or indemnify the purchaser against any loss. To the extent these assets were originated by others and purchased by Merrill Lynch, Merrill Lynch seeks to obtain appropriate representations and warranties in connection with its acquisition of the assets. Merrill Lynch believes that the potential for loss under these arrangements is remote. Accordingly, no liability is carried in the Consolidated Financial Statements for these arrangements.

In connection with divestiture transactions, (for example, the integration of Merrill Lynch HSBC ("MLHSBC") into the HSBC Group and the sale of the GPC business in Canada), Merrill Lynch provides an indemnity to the purchaser, which will fully compensate the purchaser for any unknown liens or liabilities (e.g., tax liabilities) that relate to prior periods but are not discovered until after the transaction is closed. Merrill Lynch's maximum liability under these indemnifications cannot be quantified. However, Merrill Lynch believes that the likelihood of being required to pay is remote given the level of due diligence performed prior to the close of the transactions. Accordingly, no liability is recorded in the Consolidated Financial Statements for these indemnifications.

NO. 12 EMPLOYEE BENEFIT PLANS

Merrill Lynch provides pension and other postretirement benefits to its employees worldwide through defined contribution pension, defined benefit pension and other postretirement plans. These plans vary based on the country and local practices. Merrill Lynch reserves the right to amend or terminate these plans at any time.

Merrill Lynch accounts for its defined benefit pension plans in accordance with SFAS No. 87, *Employers' Accounting for Pensions* and SFAS No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits.* Its postretirement benefit plans are accounted for in accordance with SFAS No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions,* and postemployment benefits are accounted for in accordance with SFAS No. 112, *Employers' Accounting for Postemployment Benefits.*

Merrill Lynch's measurement date for both its defined benefit pension and other postretirement benefit plans is September 30th.

Defined Contribution Pension Plans

The U.S. defined contribution pension plans consist of the Retirement Accumulation Plan ("RAP"), the Employee Stock Ownership Plan ("ESOP"), and the 401(k) Savings & Investment Plan ("401(k)"). The RAP and ESOP cover substantially all U.S.

employees who have met the service requirement. There is no service requirement for employee deferrals in the 401(k). However, there is a service requirement for an employee to receive corporate contributions in the 401(k).

Merrill Lynch established the RAP and the ESOP, collectively known as the "Retirement Program," for the benefit of employees with a minimum of one year of service. A notional retirement account is maintained for each participant. The RAP contributions are employer-funded based on compensation and years of service. The firm made a contribution of approximately $140 million to the Retirement Program in January 2005 to satisfy the 2004 contribution requirement. Under the RAP, employees are given the opportunity to invest their retirement savings in a number of different investment alternatives, including ML & Co. common stock. Under the ESOP, all retirement savings are invested in ML & Co. common stock, until employees have five years of service, after which they have the ability to diversify.

Merrill Lynch allocates ESOP shares of Merrill Lynch stock to all participants of the ESOP as principal from the ESOP loan is repaid. Beginning in 2004, these allocations are made on an annual basis. ESOP shares are considered to be either allocated (contributed to participants' accounts), committed (scheduled to be contributed at a specified future date but not yet released), or unallocated (not committed or allocated). Share information at December 31, 2004 is as follows:

Unallocated shares as of December 26, 2003	**768,111**
Release of escrow shares	**3,981**
Shares allocated/committed[1]	**(173,711)**
Unallocated shares as of December 31, 2004	**598,381**

1 Excluding forfeited shares.

Additional information on ESOP activity follows:

(dollars in millions)

	2004	2003	2002
Compensation costs funded with ESOP shares	**$ 11**	$ 9	$ 17
Dividends used for debt service	–	1	1

Merrill Lynch guarantees the debt of the ESOP. The note bears an interest rate of 6.75%, has an outstanding balance of $3 million as of December 31, 2004, and matures on December 31, 2007. All dividends received by the Plan on unallocated ESOP shares are used to pay down the note.

Employees can participate in the 401(k) by contributing, on a tax-deferred basis, a certain percentage of their eligible compensation, up to 25% since 2003, but not more than the maximum annual amount allowed by law. Employees are given the opportunity to invest their 401(k) contributions in a number of different investment alternatives, including ML & Co. common stock. Merrill Lynch's contributions are made in cash, and are equal to one-half of the first 6% of each participant's eligible compensation contributed to the 401(k), up to a maximum of two thousand dollars annually. Prior to 2004, no corporate contributions were made for participants who were also Employee Stock Purchase Plan participants (see Note 13 to the Consolidated Financial Statements). This restriction was removed, effective January 1, 2004. Merrill Lynch makes contributions to the 401(k) on a pay period basis and expects to make contributions of approximately $59 million in 2005.

Merrill Lynch also sponsors various non-U.S. defined contribution pension plans. The costs of benefits under the RAP, 401(k), and non-U.S. plans are expensed during the related service period.

Defined Benefit Pension Plans

In 1988 Merrill Lynch purchased a group annuity contract that guarantees the payment of benefits vested under a U.S. defined benefit plan that was terminated in accordance with the applicable provisions of the Employee Retirement Income Security Act of 1974 ("ERISA"). At year-end 2004 and 2003, a substantial portion of the assets supporting the annuity contract were invested in U.S. Government and agencies securities. Merrill Lynch, under a supplemental agreement, may be responsible for, or benefit from, actual experience and investment performance of the annuity assets. The firm does not expect to make contributions under this agreement in 2005. Merrill Lynch also maintains supplemental defined benefit plans (i.e., plans not subject to Title IV of ERISA) for certain U.S. participants. Merrill Lynch expects to pay $1 million of benefit payments to participants in the U.S. non-qualified pension plan in 2005.

Employees of certain non-U.S. subsidiaries participate in various local defined benefit plans. These plans provide benefits that are generally based on years of credited service and a percentage of the employee's eligible compensation during the final years of employment. Merrill Lynch's funding policy has been to contribute annually the amount necessary to satisfy local funding standards. The firm currently expects to contribute $26 million to its non-U.S. pension plans in 2005.

Postretirement Benefits Other Than Pensions

Merrill Lynch provides health insurance benefits to retired employees under a plan that covers substantially all U.S. employees who have met age and service requirements. The health care coverage is contributory, with certain retiree contributions adjusted periodically. Non-contributory life insurance was offered to employees who had retired prior to February 1, 2000. The accounting for costs of health care benefits anticipates future changes in cost-sharing provisions. Merrill Lynch pays premiums and claims as incurred. Full-time employees of Merrill Lynch become eligible for these benefits upon attainment of age 55 and completion of ten years of service. Merrill Lynch also sponsors similar plans that provide health care benefits to retired employees of certain non-U.S. subsidiaries. As of December 31, 2004, none of these plans had been funded.

The following table provides a summary of the changes in the plans' benefit obligations, assets, and funded status, for the twelve-month periods ended September 30, 2004 and September 30, 2003, and the amounts recognized in the Consolidated Balance Sheets at year-end 2004 and 2003 for Merrill Lynch's U.S. and non-U.S. defined benefit pension and postretirement benefit plans:

(dollars in millions)

	U.S. Defined Benefit Pension Plans		non-U.S. Defined Benefit Pension Plans[1]		Total Defined Benefit Pension Plans		Postretirement Plans[2]	
	2004	2003	**2004**	2003	**2004**	2003	**2004**	2003
Benefit obligations								
Balance, beginning of year	**$ 1,728**	$ 1,587	**$ 1,022**	$ 838	**$ 2,750**	$ 2,425	**$ 525**	$ 398
Service cost	**–**	–	**35**	43	**35**	43	**17**	15
Interest cost	**97**	100	**54**	43	**151**	143	**30**	32
Net actuarial loss	**52**	131	**24**	49	**76**	180	**(4)**	96
Employee contributions	**–**	–	**2**	1	**2**	1	**–**	–
Benefits paid	**(95)**	(90)	**(38)**	(38)	**(133)**	(128)	**(18)**	(18)
Curtailment and settlements	**–**	–	**(5)**	(10)	**(5)**	(10)	**–**	–
Foreign exchange and other	**–**	–	**92**	96	**92**	96	**2**	2
Balance, end of period	**1,782**	1,728	**1,186**	1,022	**2,968**	2,750	**552**	525
Fair value of plan assets								
Balance, beginning of year	**2,220**	2,245	**625**	496	**2,845**	2,741	**–**	–
Actual return on plan assets	**123**	59	**78**	75	**201**	134	**–**	–
Settlements	**–**	–	**(1)**	(10)	**(1)**	(10)	**–**	–
Contributions	**(5)**[3]	6	**58**	47	**53**	53	**18**	18
Benefits paid	**(95)**	(90)	**(38)**	(38)	**(133)**	(128)	**(18)**	(18)
Foreign exchange and other	**–**	–	**63**	55	**63**	55	**–**	–
Balance, end of period	**2,243**	2,220	**785**	625	**3,028**	2,845	**–**	–
Funded status	**461**	492	**(401)**	(397)	**60**	95	**(552)**	(525)
Unrecognized net actuarial losses (gains)[4]	**(168)**	(192)	**322**	328	**154**	136	**183**	195
Unrecognized prior service cost	**–**	–	**–**	–	**–**	–	**2**	2
Fourth-quarter activity, net	**(1)**	–	**10**	29	**9**	29	**5**	5
Net amount recognized	**$ 292**	$ 300	**$ (69)**	$ (40)	**$ 223**	$ 260	**$ (362)**	$ (323)
Assets	**$ 297**	$ 305	**$ 14**	$ 8	**$ 311**	**$** 313	**$ –**	$ –
Liabilities	**(10)**	(8)	**(256)**	(261)	**(266)**	(269)	**(362)**	(323)
Accumulated other comprehensive loss ($122 million and $150 million, net of tax in 2004 and 2003)	**5**	3	**173**	213	**178**	216	**–**	–
Net amount recognized	**$ 292**	$ 300	**$ (69)**	$ (40)	**$ 223**	$ 260	**$ (362)**	$ (323)

1 Primarily represents the U.K. and Swiss pension plans, which account for 74% and 8% of the benefit obligation for the non-U.S. plans and 76% and 11% of the fair value of non-U.S. plan assets at the end of the period.

2 Approximately 95% of the postretirement benefit obligation at the end of the period relates to the U.S. postretirement plan.

3 Represents a change to the U.S. terminated pension plan annuity contract due to adjustments to the benefit amounts.

4 The unrecognized gain for the U.S. defined benefit pension plan relates to the U.S. terminated plan. The unrecognized loss for the U.K. pension plan represents approximately 84% of the total unrecognized net actuarial loss for the non-U.S. pension plans. The U.S. postretirement plan accounts for approximately all of the net unrecognized losses relating to the postretirement plans.

The unrecognized net actuarial losses (gains) represent changes in the amount of either the projected benefit obligation or plan assets resulting from actual experience being different than that assumed and from changes in assumptions. Merrill Lynch amortizes unrecognized net actuarial losses (gains) over the average future service periods of active participants to the extent that the loss or gain exceeds 10% of the greater of the projected benefit obligation or the fair value of plan assets. This amount is recorded within net periodic benefit cost. The average future service periods for the U.K. defined benefit pension plan and U.S. postretirement plan were 13 years and 16 years, respectively. Accordingly, the expense to be recorded in fiscal year ending 2005 related to the U.K. defined benefit pension plan and the U.S. postretirement plan unrecognized losses is $14 million and $8 million, respectively. The U.S. defined benefit pension plan unrecognized gain does not exceed 10% of the greater of the projected benefit obligation or the fair value of the plan assets; therefore, the gain will not be amortized to expense in 2005.

The accumulated benefit obligation for all defined benefit pension plans was $2,842 million and $2,646 million at September 30, 2004 and September 30, 2003, respectively.

The projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets were $1,052 million, $952 million, and $641 million, respectively, as

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of September 30, 2004, and $937 million, $856 million, and $540 million, respectively, as of September 30, 2003. These plans primarily represent U.S. supplemental plans not subject to ERISA or non-U.S. plans where funding strategies vary due to legal requirements and local practices.

The decrease in accumulated other comprehensive loss in 2004 resulted from a reduction in the additional minimum pension liability in 2004 of $38 million ($28 million, net of tax), primarily related to the U.K. pension plan. The unfunded accumulated benefit obligation of this plan decreased in value due to an increase in the market value of the plan assets.

The weighted average assumptions used in calculating the benefit obligation at September 30, 2004 and September 30, 2003 are as follows:

	U.S. Defined Benefit Pension Plans		non-U.S. Defined Benefit Pension Plans		Total Defined Benefit Pension Plans		Postretirement Plans	
	2004	2003	**2004**	2003	**2004**	2003	**2004**	2003
Discount rate	**5.5%**	5.8%	**5.3%**	5.2%	**5.4%**	5.6%	**5.7%**	6.0%
Rate of compensation increase	**N/A**	N/A	**4.2%**	4.1%	**4.2%**	4.1%	**N/A**	N/A
Healthcare cost trend rates[1]								
Initial	**N/A**	N/A	**N/A**	N/A	**N/A**	N/A	**11.9%**	12.9%
Long-term	**N/A**	N/A	**N/A**	N/A	**N/A**	N/A	**4.9%**	5.0%

N/A=Not Applicable

1 The healthcare cost trend rate is assumed to decrease gradually through 2015 and remain constant thereafter.

Total net periodic benefit cost for the years ended 2004, 2003, and 2002 included the following components:

(dollars in millions)

	U.S. Pension Plans			non-U.S. Pension Plans			Total Pension Plans			Postretirement Plans		
	2004	2003	2002	**2004**	2003	2002	**2004**	2003	2002	**2004**	2003	2002
Defined contribution pension plan cost	**$ 190**	$ 165	$ 199	**$ 46**	$ 36	$ 23	**$ 236**	$ 201	$ 222	**N/A**	N/A	N/A
Defined benefit and postretirement plans												
Service cost [1, 2]	**–**	–	–	**35**	43	45	**35**	43	45	**17**	15	10
Interest cost	**97**	100	101	**54**	43	39	**151**	143	140	**30**	32	23
Expected return on plan assets	**(96)**	(98)	(112)	**(46)**	(39)	(40)	**(142)**	(137)	(152)	**–**	–	–
Amortization of unrecognized items and other	**–**	(14)	(4)	**19**	17	10	**19**	3	6	**8**	11	7
Total defined benefit and postretirement plan costs	**1**	(12)	(15)	**62**	64	54	**63**	52	39	**55**	58	40
Total net periodic benefit cost	**$ 191**	$ 153	$ 184	**$ 108**	$ 100	$ 77	**$ 299**	$ 253	$ 261	**$ 55**	$ 58	$ 40

1 The U.S. plan was terminated in 1988 and thus does not incur service costs.

2 The U.K. defined benefit pension plan was frozen at the end of the second quarter of 2004, which reduced service cost in 2004.

The weighted average assumptions used in calculating the net periodic benefit cost for the years ended September 30, 2004, 2003, and 2002 are as follows:

	U.S. Defined Benefit Pension Plans			non-U.S. Defined Benefit Pension Plans			Total Defined Benefit Pension Plans			Postretirement Plans		
	2004	2003	2002	**2004**	2003	2002	**2004**	2003	2002	**2004**	2003	2002
Discount rate	**5.8%**	6.5%	7.0%	**5.2%**	5.5%	6.0%	**5.6%**	6.2%	6.7%	**6.0%**	6.5%	7.0%
Expected long-term return on pension plan assets	**4.4%**	4.5%	5.7%	**6.9%**	7.6%	7.7%	**5.0%**	5.0%	6.1%	**N/A**	N/A	N/A
Rate of compensation increase	**N/A**	N/A	N/A	**4.1%**	4.1%	4.3%	**4.1%**	4.1%	4.3%	**N/A**	N/A	N/A
Healthcare cost trend rates[1]												
Initial	**N/A**	N/A	N/A	**N/A**	N/A	N/A	**N/A**	N/A	N/A	**12.9%**	12.8%	10.8%
Long-term	**N/A**	N/A	N/A	**N/A**	N/A	N/A	**N/A**	N/A	N/A	**5.0%**	5.0%	5.0%

N/A=Not Applicable

1 For 2004 and 2003, the healthcare cost trend rate is assumed to decrease gradually through 2015 and remain constant thereafter. For 2002 the healthcare cost trend rate is assumed to decrease gradually through 2012 and remain constant thereafter.

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Plan Assumptions

The discount rate used in determining the benefit obligation for the U.S. defined benefit pension and postretirement plans was developed by selecting the appropriate U.S. Treasury yield and the related swap spread, consistent with the duration of the plan's obligation. This yield was further adjusted to reference a Merrill Lynch specific Moody's Corporate Aa rate. The discount rate for the U.K. pension plan was selected by reference to the September 30 IBoxx index of U.K. AA-rated corporate bonds with duration greater than 15 years, consistent with the duration of the plan's obligation.

The expected long-term rate of return on plan assets reflects the average rate of earnings expected on the funds invested or to be invested to provide for the benefits included in the projected benefit obligation. The U.S. tax-qualified pension plan, which represents approximately 74% of Merrill Lynch's total pension plan assets as of September 30, 2004, is 100% invested in a group annuity contract, which is currently 100% invested in fixed income securities. The expected long-term rate of return on plan assets for the U.S. tax-qualified pension plan is based on the portfolio yield at the beginning of each fiscal year. The U.K. pension plan, which represents approximately 20% of Merrill Lynch's total pension plan assets as of September 30, 2004, is currently invested in 79% equity securities, 15% debt securities and 6% real estate. The expected long-term rate of return on the U.K. pension plan assets was determined by Merrill Lynch and reflects estimates by the plan investment advisors of the expected returns on different asset classes held by the plan in light of prevailing economic conditions at the beginning of the fiscal year.

At September 30, 2004, Merrill Lynch reduced the discount rate used to determine the U.S. pension plan and postretirement plan obligations to 5.5% and 5.8%, respectively. The expected rate of return for the U.S. pension plan assets was not changed. The impact of the discount rate reduction for the U.S. pension and postretirement plan expense for 2005 is not expected to be material. The discount rate for the U.K. pension plan was not changed. The expected rate of return for the U.K. plan was reduced from 8.5% to 7.5%, which increased expense in 2004 by approximately $5 million.

Although Merrill Lynch's pension and postretirement benefit plans can be sensitive to changes in the discount rate, it is expected that a 25 basis point rate reduction would not have a material impact on the U.S. and non-U.S. plan expenses. This change would increase the U.S. and U.K. plan obligations by $71 million and $47 million, respectively. In addition, a 25 basis point decline in the expected rate of return for the U.S. pension plan would result in an expense increase of approximately $6 million. It is expected that a similar change to the U.K. and other non-U.S. plans would not be material.

The assumed health care cost trend rate has a significant effect on the amounts reported for the postretirement health care plans. A one-percent change in the assumed health care cost trend rate would have the following effects:

(dollars in millions)

	1% Increase		1% Decrease	
	2004	2003	**2004**	2003
Effect on:				
Other postretirement benefits cost	**$ 8**	$ 8	**$ (7)**	$ (7)
Accumulated benefit obligation	**94**	90	**(75)**	(70)

Investment Strategy and Asset Allocation

The U.S. tax qualified pension plan asset portfolio is structured such that the asset maturities match the duration of the plan's obligations. Consistent with the plan termination in 1988, the annuity contract and the supplemental agreement, the asset portfolio's investment objective calls for a concentration in fixed income securities, the majority of which have an investment grade rating.

The assets of the U.K. pension plan are invested prudently so that the benefits promised to members are provided, having regard to the nature and the duration of the plan's liabilities. The current planned investment strategy was set following an asset-liability study and advice from the Trustees' investment advisors. The asset allocation strategy selected is designed to achieve a higher return than the lowest risk strategy while maintaining a prudent approach to meeting the plan's liabilities. For the U.K. pension plan, the target asset allocation is 80% equity, 15% debt securities and 5% real estate.

The pension plan weighted-average asset allocations at September 30, 2004 and September 30, 2003, by asset category are presented in the table below. The actual asset allocations are consistent with their respective targets. The Merrill Lynch postretirement benefit plans are not funded and do not hold assets for investment.

	Defined Benefit Pension Plans			
	U.S. Plans		non-U.S. Plans	
	2004	2003	**2004**	2003
Debt securities	**100%**	100%	**23%**	24%
Equity securities	**–**	–	**70**	70
Real estate	**–**	–	**4**	4
Other	**–**	–	**3**	2
Total	**100%**	100%	**100%**	100%

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Estimated Future Benefit Payments

Expected benefit payments associated with Merrill Lynch's defined benefit pension and postretirement plans for the next five years, and in aggregate, for the five years thereafter are as follows:

(dollars in millions)

	Defined Benefit Pension Plans			Postretirement Plans[3]		
	U.S.[1]	non-U.S.[2]	Total	Gross Payments	Medicare Subsidy	Net Payments
2005	$ 96	$ 38	$ 134	$ 21	$ –	$ 21
2006	100	40	140	23	2	21
2007	104	41	145	26	3	23
2008	107	44	151	28	3	25
2009	110	45	155	31	4	27
2010 through 2014	589	257	846	191	27	164

1 The U.S. defined benefit pension plan payments are funded under the terminated plan annuity contract.

2 The U.K., Japan and Swiss pension plan payments represent about 60%, 13% and 12%, respectively, of the non-U.S. expected defined benefit pension payments.

3 The U.S. postretirement plan payments, including the Medicare subsidy, represent approximately 95% of the total expected postretirement benefit payments.

Postemployment Benefits

Merrill Lynch provides certain postemployment benefits for employees on extended leave due to injury or illness and for terminated employees. Employees who are disabled due to non-work-related illness or injury are entitled to disability income, medical coverage, and life insurance. Merrill Lynch also provides severance benefits to terminated employees. In addition, Merrill Lynch is mandated by U.S. state and federal regulations to provide certain other postemployment benefits. Merrill Lynch funds these benefits through a combination of self-insured and insured plans.

Merrill Lynch recognized $165 million, $343 million, and $464 million in 2004, 2003, and 2002, respectively, of postemployment benefits expense, which included severance costs for terminated employees of $134 million, $311 million, and $429 million in 2004, 2003, and 2002, respectively. See Note 16 to the Consolidated Financial Statements for additional information.

NO. 13 EMPLOYEE INCENTIVE PLANS

To align the interests of employees with those of stockholders, Merrill Lynch sponsors several employee compensation plans that provide eligible employees with stock or options to purchase stock. The total pre-tax compensation cost recognized in earnings for stock-based compensation plans for 2004, 2003, and 2002 was $883 million, $1,004 million, and $2,071 million, respectively, which includes the impact of accelerated amortization for terminated employees. Merrill Lynch also sponsors deferred cash compensation plans and award programs for eligible employees.

Long-Term Incentive Compensation Plans ("LTIC Plans"), Employee Stock Compensation Plan ("ESCP") and Equity Capital Accumulation Plan ("ECAP")

LTIC Plans, ESCP and ECAP provide for grants of equity and equity-related instruments to certain employees. LTIC Plans consist of the Long-Term Incentive Compensation Plan, a shareholder approved plan used for grants to executive officers, and the Long-Term Incentive Compensation Plan for Managers and Producers, a broad-based plan which was approved by the Board of Directors, but has not been shareholder approved. LTIC Plans provide for the issuance of Restricted Shares, Restricted Units, and Non-qualified Stock Options, as well as Incentive Stock Options, Performance Shares, Performance Units, Performance Options, Stock Appreciation Rights, and other securities of Merrill Lynch. ESCP, a broad-based plan approved by shareholders in 2003, provides for the issuance of Restricted Shares, Restricted Units, Non-qualified Stock Options and Stock Appreciation Rights. ECAP, a shareholder-approved plan, provides for the issuance of Restricted Shares, as well as Performance Shares. All plans under LTIC, ESCP and ECAP may be satisfied using either treasury or newly issued shares. As of December 31, 2004, no instruments other than Restricted Shares, Restricted Units, Non-qualified Stock Options, Performance Options and Stock Appreciation Rights had been granted. Stock-settled Stock Appreciation Rights, which were first granted in 2004, were substantially all converted to Non-qualified stock options as of December 31, 2004.

Restricted Shares and Units

Restricted Shares are shares of ML & Co. common stock carrying voting and dividend rights. A Restricted Unit is deemed equivalent in fair market value to one share of common stock.

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Substantially all awards are settled in shares of common stock. Recipients of Restricted Unit awards receive cash payments equivalent to dividends. Under these plans, such shares and units are restricted from sale, transfer, or assignment until the end of the restricted period. Such shares and units are subject to forfeiture during the vesting period, for grants under LTIC Plans, or the restricted period for grants under ECAP. Restricted share and unit grants made prior to 2003 generally cliff vest in three years.

Restricted share and unit grants made in 2003 and 2004 generally cliff vest in four years.

In January 2003, 18,656,866 Restricted Units were converted to Restricted Shares; no change was made to the remaining vesting periods and the restricted periods were removed. Further, in 2003, 16,049,636 Restricted Units were released as a result of the early removal of the restricted period. The activity for Restricted Shares and Units under these plans during 2004 and 2003 follows:

	LTIC Plans		ECAP	ESCP
	Restricted Shares	Restricted Units	Restricted Shares	Restricted Shares
Authorized for issuance at:				
December 31, 2004	**660,000,000**	**N/A**	**104,800,000**	**75,000,000**
December 26, 2003	660,000,000	N/A	104,800,000	75,000,000
Available for issuance at:[1]				
December 31, 2004	**63,887,054**	**N/A**	**10,835,952**	**75,000,000**
December 26, 2003	81,044,822	N/A	10,843,278	75,000,000
Outstanding, end of 2002	**7,628,148**	**42,801,327**	**129,650**	**–**
Granted — 2003	14,752,807	1,901,446	8,946	–
Unit to share conversion	18,656,866	(18,656,866)	–	–
Paid, forfeited, or released from contingencies	(7,209,193)	(18,825,452)	(99,537)	–
Outstanding, end of 2003	**33,828,628**	**7,220,455**	**39,059**	**–**
Granted — 2004	12,280,362	2,664,393	7,851	**–**
Paid, forfeited, or released from contingencies	(10,735,085)	(3,152,272)	(14,622)	–
Outstanding, end of 2004[2]	**35,373,905**	**6,732,576**	**32,288**	**–**

N/A=Not Applicable

1 Includes shares reserved for issuance upon the exercise of stock options.

2 In January 2005, 18,245,657 Restricted Shares and 2,922,413 Restricted Units under LTIC and ESCP plans were granted to eligible employees.

The weighted-average fair value per share or unit for 2004, 2003, and 2002 grants follows:

	2004	2003	2002
LTIC Plans			
Restricted Shares	**$ 59.10**	$ 36.69	$ 50.31
Restricted Units	**54.38**	37.18	52.98
ECAP Restricted Shares	**58.30**	53.65	48.81

Merrill Lynch sponsors other plans similar to LTIC Plans in which restricted shares are granted to employees and non-employee directors. At year-end 2004 and 2003, 3,800,000 restricted shares were authorized for issuance under these plans. There were no shares outstanding under these plans at year-end 2004. At year-end 2003, 88,657 shares were outstanding under these plans.

Non-Qualified Stock Options

Non-qualified Stock Options granted under LTIC Plans in 1994 and 1995 generally became exercisable over four years in equal installments commencing one year after the date of grant. Options granted in 1996 through 2000 generally are exercisable over five years; options granted in 2001 and 2002 became exercisable after approximately six months. Option and Stock Appreciation Right grants made after 2002 generally become exercisable over four years. The exercise price of these grants is equal to 100% of the fair market value (as defined in LTIC Plans) of a share of ML & Co. common stock on the date of grant. Options and Stock Appreciation Rights expire ten years after their grant date.

In December 2004, 8,141,369 Stock Appreciation Rights which were granted in January 2004 were converted to Non-Qualified Stock Options; no change was made to the remaining vesting periods or exercise price. A total of 362,948 Stock Appreciation Rights remained outstanding at December 31, 2004.

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The activity for Non-qualified Stock Options under LTIC Plans for 2004, 2003, and 2002 follows:

	Options Outstanding	Weighted-Average Exercise Price
Outstanding, beginning of 2002	194,450,419	$ 37.36
Granted — 2002	45,373,396	53.76
Exercised	(14,874,865)	14.78
Forfeited	(3,060,806)	49.26
Outstanding, end of 2002	221,888,144	42.07
Granted — 2003	23,188,910	36.15
Exercised	(26,988,687)	20.41
Forfeited	(1,943,844)	36.70
Outstanding, end of 2003	216,144,523	44.20
Granted — 2004	**9,842,371**	**59.85**
Exercised	**(20,429,175)**	**27.10**
Forfeited	**(1,434,287)**	**46.88**
Outstanding, end of 2004[1]	**204,123,432**	**46.64**

1 In January 2005, 489,843 Non-qualified Stock Options were granted to eligible employees.

At year-end 2004, 2003, and 2002, options exercisable under LTIC Plans were 169,975,049; 176,168,602, and 190,264,151, respectively. The weighted-average exercise price of exercisable options was $47.05, $45.35, and $42.28, per option, at year-end 2004, 2003, and 2002, respectively.

The table below summarizes information related to outstanding and exercisable options at year-end 2004:

	Options Outstanding			Options Exercisable	
Exercise Price	**Number Outstanding**	**Weighted-Average Exercise Price**	**Weighted-Average Remaining Life (Years)**[1]	**Number Exercisable**	**Weighted-Average Exercise Price**
$8.00 – $31.99	**32,196,792**	**$ 22.11**	**2.07**	**32,196,792**	**$ 22.11**
$32.00 – $37.99	**53,986,866**	**36.14**	**5.62**	**37,183,762**	**36.14**
$38.00 – $50.99	**32,876,256**	**43.69**	**5.11**	**25,375,445**	**43.73**
$51.00 – $60.99	**51,701,710**	**54.85**	**7.43**	**42,118,571**	**53.75**
$61.00 – $77.99	**33,361,808**	**77.51**	**6.07**	**33,100,479**	**77.56**

1 Based on original contractual life of ten years.

The weighted-average fair value of options granted in 2004, 2003, and 2002 was $20.46, $13.55, and $22.44, per option, respectively. Fair value is estimated as of the grant date based on a Black-Scholes option pricing model using the following weighted-average assumptions:

	2004	2003	2002
Risk-free interest rate	**3.27%**	2.86%	4.61%
Expected life	**5 yrs.**	5 yrs.	5 yrs.
Expected volatility	**37.36%**	46.41%	45.88%
Dividend yield	**1.07%**	1.77%	1.19%

Employee Stock Purchase Plans ("ESPP")

The ESPP, which is shareholder approved, allows eligible employees to invest from 1% to 10% of their eligible compensation to purchase ML & Co. common stock, subject to legal limits. Prior to 2005, the maximum annual purchase was $21,250. For 2005, the maximum annual purchase will be $23,750. Prior to 2004, purchases were made at a discount generally equal to 15% of the average of the high and low market price on the relevant investment date. Effective January 10, 2004, the discount was eliminated. Beginning January 15, 2005, purchases will be made at a discount equal to 5% of the average high and low market price on the relevant investment date. Up to 125,000,000 shares of common stock have been authorized for issuance under ESPP. The activity in ESPP during 2004, 2003, and 2002 follows:

	2004	2003	2002
Available, beginning of year	**24,931,909**	26,918,962	29,425,067
Authorized during year	**–**	–	–
Purchased through plan	**(574,957)**	(1,987,053)	(2,506,105)
Available, end of year	**24,356,952**	24,931,909	26,918,962

The weighted-average fair value of ESPP stock purchase rights exercised by employees in 2004, 2003, and 2002 was $3.95, $6.69, and $6.35 per right, respectively.

Financial Advisor Capital Accumulation Award Plans ("FACAAP")

Under FACAAP, eligible employees in GPC are granted awards generally based upon their prior year's performance. Payment for an award is contingent upon continued employment for a period of time and is subject to forfeiture during that period. Awards granted in 2004 and 2003 are generally payable eight years from the date of grant in a fixed number of shares of ML & Co. common stock. For outstanding awards granted prior to 2003, payment is generally made ten years from the date of grant in a fixed number of shares of ML & Co. common stock unless the fair market value of such shares is less than a specified minimum value plus interest, in which case the minimum value plus interest is paid in cash. Eligible participants may defer awards beyond the scheduled payment date. Only shares of common stock held as treasury stock may be issued under FACAAP. FACAAP, which was approved by the Board of Directors, has not been shareholder approved.

At December 31, 2004, shares subject to outstanding awards totaled 41,472,047 while 20,219,356 shares were available for issuance through future awards. The weighted-average fair value of awards granted under FACAAP during 2004, 2003, and 2002 was $57.73, $38.78, and $52.67 per award, respectively.

Other Compensation Arrangements

Merrill Lynch sponsors deferred compensation plans in which employees who meet certain minimum compensation requirements may participate on either a voluntary or mandatory basis. Contributions to the plans are made on a tax-deferred basis by participants. Participants' returns on these contributions may be indexed to various Merrill Lynch mutual funds and other funds, including certain company-sponsored investment vehicles that qualify as employee securities companies.

Merrill Lynch also sponsors several cash-based employee award programs, under which certain employees are eligible to receive future cash compensation, generally upon fulfillment of the vesting criteria for the particular program.

When appropriate, Merrill Lynch maintains various assets as an economic hedge of its liabilities to participants under the deferred compensation plans and award programs. These assets and the payables accrued by Merrill Lynch under the various plans and grants are included on the Consolidated Balance Sheets. Such assets totaled $2.1 billion and $1.8 billion, at December 31, 2004 and December 26, 2003, respectively. Accrued liabilities at year-end 2004 and 2003 were $1.7 billion and $1.3 billion, respectively.

NO. 14 INCOME TAXES

Income tax provisions (benefits) on earnings consisted of:

(dollars in millions)

	2004	2003	2002
U.S. federal			
Current	**$ 861**	$ 821	$ 485
Deferred	**152**	285	(129)
U.S. state and local			
Current	**73**	5	68
Deferred	**(39)**	48	(19)
Non-U.S.			
Current	**464**	197	402
Deferred	**(111)**	28	(203)
Total	**$ 1,400**	$ 1,384	$ 604

The corporate statutory U.S. federal tax rate was 35% for the three years presented. A reconciliation of statutory U.S. federal income taxes to Merrill Lynch's income tax provisions for earnings follows:

(dollars in millions)

	2004	2003	2002
U.S. federal income tax at statutory rate	**$ 2,043**	$ 1,826	$ 810
U.S. state and local income taxes, net	**22**	34	32
Non-U.S. operations	**(204)**	(232)	6
Tax-exempt interest	**(160)**	(148)	(127)
Dividends received deduction	**(42)**	(17)	(13)
Valuation allowance[1]	**(281)**	(66)	(64)
MLHSBC joint venture exit[2]	**–**	–	(81)
Other	**22**	(13)	41
Income tax expense	**$ 1,400**	$ 1,384	$ 604

1 2004 amount reflects the reversal and utilization of the Japan valuation allowance.

2 Refer to Note 16 for information on MLHSBC joint venture.

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The 2004, 2003 and 2002 effective tax rates reflect net benefits (expenses) of $(33) million, $220 million and $77 million, respectively, related to changes in estimates for prior years, and settlements with various tax authorities.

Deferred income taxes are provided for the effects of temporary differences between the tax basis of an asset or liability and its reported amount in the Consolidated Balance Sheets. These temporary differences result in taxable or deductible amounts in future years. Details of Merrill Lynch's deferred tax assets and liabilities follow:

(dollars in millions)

	2004	2003	2002
Deferred tax assets			
Deferred compensation	**$ 1,360**	$ 1,412	$ 1,592
Stock options	**1,298**	1,255	1,234
Valuation and other reserves	**986**	769	525
Employee benefits and pension	**477**	163	41
Net operating loss carryforwards	**292**	431	403
Foreign exchange translation	**285**	113	85
Deferred interest	**250**	318	392
Partnership activity	**166**	123	3
Restructuring related	**79**	140	188
Depreciation and amortization	**–**	–	113
Deferred losses	**–**	–	86
Other	**450**	836	340
Gross deferred tax assets	**5,643**	5,560	5,002
Valuation allowances	**(66)**	(315)	(330)
Total deferred tax assets	**5,577**	5,245	4,672
Deferred tax liabilities			
Goodwill	**613**	423	265
Deferred income	**331**	294	–
Deferred acquisition costs	**181**	171	65
Depreciation and amortization	**161**	99	–
Interest and dividends	**85**	269	149
Other	**380**	243	496
Total deferred tax liabilities	**1,751**	1,499	975
Net deferred tax assets	**$ 3,826**	$ 3,746	$ 3,697

At December 31, 2004, Merrill Lynch had U.S. net operating loss carryforwards of approximately $1,585 million and non-U.S. net operating loss carryforwards of $619 million. The U.S. amounts are primarily state carryforwards expiring in various years after 2005. The non-U.S. amounts are primarily United Kingdom and Japan carryforwards, with the Japan carryforwards expiring in various years after 2005. Merrill Lynch also had approximately $68 million of state tax credit carryforwards expiring in various years after 2005.

The valuation allowance in 2004 decreased primarily due to both the utilization of net operating losses against earnings in Japan and the reversal of the remaining Japan valuation allowance in the fourth quarter.

Merrill Lynch is under examination by the Internal Revenue Service ("IRS") and other tax authorities in major countries such as Japan and the United Kingdom, and states in which Merrill Lynch has significant business operations, such as New York. The tax years under examination vary by jurisdiction; for example, the current IRS examination covers 2001–2003, while the current examination by the Tokyo Regional Tax Bureau covers 1998–2002. Merrill Lynch expects to receive a tax assessment from the Tokyo Regional Tax Bureau in 2005. At issue is the Japanese tax authority's view that certain income Merrill Lynch previously paid tax on to other international jurisdictions, primarily the United States, should have been allocated to Japan. Merrill Lynch intends to take steps to prevent duplication of taxes, including obtaining clarification from international authorities on the appropriate allocation of income among multiple jurisdictions. Merrill Lynch regularly assesses the likelihood of additional assessments in each of the tax jurisdictions resulting from these examinations. Tax reserves have been established, which Merrill Lynch believes to be adequate in relation to the potential for additional assessments. However, there is a reasonable possibility that additional amounts may be incurred. Management believes that the estimated range of the additional possible amount is between $0 and $150 million. This range and the level of reserves are adjusted when there is more information available, or when an event occurs requiring a change to the reserves. The reassessment of tax reserves could have a material impact on Merrill Lynch's effective tax rate.

Income tax benefits of $248 million, $370 million, and $178 million were allocated to stockholders' equity related to employee stock compensation transactions for 2004, 2003, and 2002, respectively.

Cumulative undistributed earnings of non-U.S. subsidiaries were approximately $8.1 billion at December 31, 2004. No deferred U.S. federal income taxes have been provided for the undistributed earnings to the extent that they are permanently reinvested

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in Merrill Lynch's non-U.S. operations. It is not practical to determine the amount of additional tax that may be payable in the event these earnings are repatriated. See Note 1 to the Consolidated Financial Statements, New Accounting Pronouncements, for further information.

NO. 15 REGULATORY REQUIREMENTS AND DIVIDEND RESTRICTIONS

On December 23, 2004, the SEC approved Merrill Lynch's application to become a consolidated supervised entity ("CSE"). As a CSE, Merrill Lynch has consented to group-wide supervision which, effective January 1, 2005, requires Merrill Lynch to compute allowable capital on a consolidated basis.

Certain U.S. and non-U.S. subsidiaries are subject to various securities, banking, and insurance regulations and capital adequacy requirements promulgated by the regulatory and exchange authorities of the countries in which they operate. Merrill Lynch's principal regulated subsidiaries are discussed below.

Securities Regulation

MLPF&S, a U.S. registered broker-dealer and futures commission merchant, is subject to the net capital requirements of Rule 15c3-1 under the Securities Exchange Act of 1934 and capital requirements of the Commodities Futures Trading Commission ("CFTC"). Under the alternative method permitted by Rule 15c3-1, the minimum required net capital, as defined, shall not be less than 2% of aggregate debit items ("ADI") arising from customer transactions. The CFTC also requires that minimum net capital should not be less than 4% of segregated and secured requirements. At December 31, 2004, MLPF&S's regulatory net capital of $3,050 million was approximately 19% of ADI, and its regulatory net capital in excess of the minimum required was $2,683 million at 2% of ADI.

MLI, a U.K. regulated investment firm, is subject to capital requirements of the Financial Services Authority ("FSA"). Financial resources, as defined, must exceed the total financial resources requirement of the FSA. At December 31, 2004, MLI's financial resources were $7,922 million, exceeding the minimum requirement by $1,242 million.

MLGSI, a primary dealer in U.S. Government securities, is subject to the capital adequacy requirements of the Government Securities Act of 1986. This rule requires dealers to maintain liquid capital in excess of market and credit risk, as defined, by 20% (a 1.2-to-1 capital-to-risk standard). At December 31, 2004, MLGSI's liquid capital of $1,610 million was 204% of its total market and credit risk, and liquid capital in excess of the minimum required was $662 million.

MLJS, a Japan-based regulated broker-dealer, is subject to capital requirements of the Japanese Financial Services Agency ("JFSA"). Net capital, as defined, must exceed 120% of the total risk equivalents requirement of the JFSA. At December 31, 2004, MLJS's net capital was $1,109 million, exceeding the minimum requirement by $653 million.

Banking Regulation

Two subsidiaries of ML & Co., MLBUSA and MLB&T are required to maintain capital levels that at least equal minimum capital levels specified in U.S. federal banking laws and regulations. Failure to meet the minimum levels will result in certain mandatory, and possibly additional discretionary, actions by the regulators that, if undertaken, could have a direct material effect on the banks. The capital levels, defined as the Tier 1 leverage ratio, the Tier 1 risk-based capital ratio, and the Total risk-based capital ratio, are calculated as (i) Tier 1 Capital or Total Capital to (ii) average assets or risk-weighted assets. MLBUSA and MLB&T each exceed the minimum bank regulatory requirement for classification as a well-capitalized bank for the Tier 1 leverage ratio — 5%, the Tier 1 risk-based capital ratio — 6% and the Total risk-based capital ratio — 10%. The following table represents the actual capital ratios and amounts for MLBUSA and MLB&T at December 31, 2004 and December 26, 2003.

(dollars in millions)

	2004		2003	
	Actual Ratio	**Amount**	Actual Ratio	Amount
Tier 1 leverage (to average assets)				
MLBUSA	**7.58%**	**$ 5,171**	6.47%	$ 4,480
MLB&T	**6.17**	**815**	6.00	857
Tier 1 capital (to risk-weighted assets)				
MLBUSA	**10.28**	**5,171**	10.73	4,480
MLB&T	**17.35**	**815**	19.18	857
Total capital (to risk-weighted assets)				
MLBUSA	**10.81**	**5,438**	11.28	4,706
MLB&T	**17.39**	**817**	19.20	858

MLCMB, an Ireland-based regulated bank, is subject to the capital requirements of the Irish Financial Services Regulatory Authority ("IFSRA"), as well as to those of the State of New York Banking Department ("NYSBD"), as the consolidated supervisor of its indirect parent, Merrill Lynch International Finance Corporation ("MLIFC"). MLCMB is required to meet minimum regulatory capital requirements under EU banking law as implemented in Ireland by IFSRA. At December 31, 2004, MLCMB's capital ratio was above the minimum requirement at 8.83% and its financial resources, as defined, were $2,654 million.

MLIB, a U.K.-based regulated bank, is subject to the capital requirements of the FSA as well as those of the NYSBD as part of the MLIFC group. MLIB is required to meet minimum regulatory capital requirements under EU banking law as implemented in the U.K. MLIB's consolidated capital ratio (including its subsidiary Merrill Lynch Bank (Suisse) S.A.), is above the minimum capital requirements established by the FSA. At December 31, 2004, MLIB's consolidated capital ratio was 13.73% and its consolidated financial resources were $2,366 million.

Insurance Regulation

Merrill Lynch's insurance subsidiaries are subject to various regulatory restrictions that limit the amount available for distribution as dividends. At December 31, 2004, $693 million, representing 77% of the insurance subsidiaries' net assets, was unavailable for distribution to Merrill Lynch.

Other

Approximately 60 other subsidiaries are subject to regulatory and other requirements of the jurisdictions in which they operate. These regulatory restrictions may impose regulatory capital requirements and limit the amounts that these subsidiaries can pay in dividends or advance to Merrill Lynch. At December 31, 2004, restricted net assets of these subsidiaries were $1.8 billion.

With the exception of regulatory restrictions on subsidiaries' abilities to pay dividends, there are no restrictions on ML & Co.'s present ability to pay dividends on common stock, other than ML & Co.'s obligation to make payments on its preferred stock and TOPrS^{SM}, and the governing provisions of the Delaware General Corporation Law.

NO. 16 OTHER EVENTS

Acquisitions

On November 1, 2004, Merrill Lynch completed its acquisition of the energy trading businesses of Entergy-Koch, LP. Total consideration for the acquisition amounted to $800 million, plus an amount equal to net working capital and net assets/liabilities from trading activities. Approximately $670 million of goodwill and $120 million of intangible assets were recorded as a result of this transaction. Intangible assets consist primarily of customer and technology related intangible assets. The wholly-owned energy trading business operates as the Global Commodities group, within Merrill Lynch's GMI segment.

On October 29, 2004, Merrill Lynch completed its acquisition of the U.K. non-conforming mortgage lender, Mortgages plc. Mortgages plc engages in a range of mortgage-related businesses, including origination, servicing, packaging and securitization.

Divestitures

In the first quarter of 2002, Merrill Lynch sold its Securities Pricing Services business and its Canadian retail asset management business. Merrill Lynch recorded pre-tax gains of $45 million and $17 million, respectively, related to these sales, which were included in other revenues on the Consolidated Statements of Earnings.

In 2002, Merrill Lynch and HSBC integrated their joint venture company, MLHSBC, into the HSBC Group. MLHSBC was a 50/50 joint venture formed by Merrill Lynch and HSBC Group in April 2000 to create a global online investment and banking services company, serving individual self-directed customers outside the United States. Merrill Lynch recognized losses related to MLHSBC of $34 million and $150 million in 2002 and 2001, respectively, which have been recorded in other revenues on the Consolidated Statements of Earnings.

September 11-related Recoveries/Expenses

On September 11, 2001, terrorists attacked the World Trade Center complex, which subsequently collapsed and damaged surrounding buildings, some of which were occupied by Merrill Lynch. These events caused the temporary relocation of approximately 9,000 employees from Merrill Lynch's global headquarters in the North and South Towers of the World Financial Center, and from offices at 222 Broadway to backup facilities. Merrill Lynch maintains insurance for losses caused by physical damage to property. This coverage includes repair or replacement of property and lost profits due to business interruption, including costs related to lack of access to facilities. Merrill Lynch recorded September 11-related net insurance recoveries of $147 million and $212 million in 2003 and 2002, respectively. Expenses related to September 11 were $38 million and $113 million in 2003 and 2002, respectively.

During 2003, Merrill Lynch concluded its insurance recovery efforts related to the events of September 11th. In aggregate, Merrill Lynch was reimbursed $725 million for repair and replacement of physical damage, recovery expenses, and losses due to business interruption.

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Restructuring and Other Charges

During the fourth quarter of 2001, Merrill Lynch's management formally committed to a restructuring plan designed to position Merrill Lynch for improved profitability and growth, which included the resizing of selected businesses and other structural changes. As a result, Merrill Lynch incurred a fourth quarter pre-tax charge to earnings of $2.2 billion, which included restructuring costs of $1.8 billion and other charges of $396 million. These other charges primarily related to asset write-offs, which were recorded in 2001.

During 2003, a charge of $56 million was recorded related to lease write-offs as well as technology and other fixed asset write-offs relating to GMI, GPC, and MLIM following a real estate rationalization effort. This charge, in combination with the $36 million net reduction in the 2001 restructuring reserve, was recorded as a net $20 million restructuring and other charge in the Consolidated Statements of Earnings in 2003. During 2002, a charge of $17 million was recorded related to location closings in GPC from the consolidation of office space arising from workforce reductions in Europe. This charge, in combination with the $9 million net reduction in the 2001 restructuring reserve, was recorded as a net $8 million restructuring and other charge in the Consolidated Statements of Earnings in 2002.

Restructuring Charge

The 2001 restructuring charges related primarily to initial severance costs of $1.1 billion, facilities costs of $299 million, technology and fixed asset write-offs of $187 million, and legal, technology, and other costs of $178 million. Structural changes included workforce reductions of 6,205 through a combination of involuntary and voluntary separations across all business groups. The initial $1.1 billion of severance costs included non-cash charges related to accelerated amortization for stock grants associated with employee separations totaling $135 million. Facilities-related costs included the closure or subletting of excess space, and the consolidation of GPC offices in the United States, Europe and Asia Pacific. Office consolidations have been completed as employees have vacated the facilities. However, additional reserves remain at December 31, 2004, as remaining lease payments extend to future periods. Any unused portion of the original restructuring reserve will be reversed. Substantially all of the remaining cash payments related to real estate and severance will be funded by cash from operations. Asset write-offs primarily reflected the write-off of technology assets and furniture and equipment that resulted from management's decision to close GPC branch offices. Utilization of the restructuring reserve and a rollforward of staff reductions at December 31, 2004 is as follows:

(dollars in millions)

	Balance Dec. 27, 2002	Utilized in 2003	Net Change in Estimate	Balance Dec. 26, 2003	**Utilized in 2004**	**Net Change in Estimate**	**Balance Dec. 31, 2004**
Category:							
Severance costs	$ 45	$ (32)	$ (8)	$ 5	**$ (3)**	**$ –**	**$ 2**
Facilities costs	284	(91)	13	206	**(46)**	**–**	**160**
Other costs	59	2	(41)	20	**(5)**	**(13)**	**2**
	$ 388	$ (121)	$ (36)	$ 231	**$ (54)**	**$ (13)**	**$ 164**
Staff reductions	223	(102)	(121)	–	**–**	**–**	**–**

The changes in estimate during 2003 and 2002 are attributable to differences in actual costs from initial estimates in implementing the original restructuring plan. As a result of changes in estimates during 2003, severance-related reserves of $8 million and other reserves of $41 million were reversed and recorded to the Consolidated Statements of Earnings in other expenses. These amounts resulted from lower than anticipated costs, principally in the Japan GPC business. The estimates for facilities costs were increased by $13 million in 2003, reflecting increased facilities closure costs for locations in the United States and Europe. The charges and credits above are included in other expenses in the Consolidated Statements of Earnings.

As a result of changes in estimates during 2002, severance-related reserves of $32 million and other reserves of $37 million, principally related to the Japan GPC business, were reversed and recorded to the Consolidated Statements of Earnings as other expenses. The estimates for facilities costs were adjusted in 2002 to reflect increased costs relating primarily to unutilized space in the World Financial Center of $70 million and certain other location closings in the United States of $22 million. These changes in estimates were partially offset by lower than anticipated costs in Japan of $41 million. Technology and fixed assets write-offs was also adjusted in 2002 to reflect increased fixed asset write-offs in various other U.S. corporate locations totaling $9 million. The charges and credits above are included in other expenses in the Consolidated Statements of Earnings.

Research and Other Settlements

In May 2002, Merrill Lynch executed an agreement with the New York Attorney General regarding alleged conflicts of interest between Merrill Lynch's Research and Investment Banking groups. As part of the agreement, the Attorney General terminated his investigation and Merrill Lynch agreed to implement changes to further insulate the Research Department from Investment Banking. In addition, in order to reach a resolution and settlement of the matter, Merrill Lynch agreed to make a civil payment of $48 million to New York State and an additional $52 million to the other 49 states and to Puerto Rico and the District of Columbia. Merrill Lynch admitted no wrongdoing or liability as part of this agreement. The majority of these payments were made in the fourth quarter of 2002. In addition, $11 million of related legal fees were incurred.

In April 2003, the SEC, New York Stock Exchange, National Association of Securities Dealers, and state securities regulators announced that the settlements-in-principle that the regulators had disclosed on December 20, 2002 had been reduced to final settlements with regard to ten securities firms, including Merrill Lynch. Merrill Lynch disclosed the settlements-in-principle on December 24, 2002. The final settlements pertaining to Merrill Lynch, which involve both monetary and non-monetary relief set forth in the regulators' announcements, concluded the regulatory actions against Merrill Lynch related to those alleged conflicts of interest affecting research analysts. The settlement became final on October 31, 2003 when the Court entered the order approving the related agreement. Merrill Lynch entered into these settlements without admitting or denying the allegations and findings by the regulators, and the settlements do not establish wrongdoing or liability for purposes of any other proceedings. Pursuant to this settlement, Merrill Lynch, among other things, contributed $100 million for the funding of independent research and investor education over five years, but did not pay any fines or make any additional civil payments. The full amount of the settlement-in-principle was accrued for in 2002.

In March 2003, Merrill Lynch entered into a final settlement agreement with the SEC, in which it neither admitted nor denied any wrongdoing, regarding an investigation into two 1999 transactions between Merrill Lynch and Enron Corporation. This final settlement concluded the SEC's investigation of all Enron-related matters with respect to Merrill Lynch. As a result, a pre-tax charge of $80 million ($64 million after-tax), which includes disgorgement, penalties and interest, was included in the 2002 Consolidated Statements of Earnings in research and other settlement-related expenses.

In September 2003, the Department of Justice agreed not to prosecute Merrill Lynch for alleged crimes of its former employees related to certain transactions with Enron, subject to certain understandings, including Merrill Lynch's continued cooperation with the Department, its acceptance of responsibility for conduct of its former employees, and its agreement to adopt and implement new policies and procedures related to the integrity of client and counterparty financial statements, complex-structured finance transactions and year-end transactions.

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SUPPLEMENTAL FINANCIAL INFORMATION (UNAUDITED)

Quarterly Information

The unaudited quarterly results of operations of Merrill Lynch for 2004 and 2003 are prepared in conformity with U.S. generally accepted accounting principles, which include industry practices, and reflect all adjustments that are, in the opinion of management, necessary for a fair presentation of the results of operations for the periods presented. Results of any interim period are not necessarily indicative of results for a full year.

(dollars in millions, except per share amounts)

	For the Quarter Ended							
	Dec. 31, 2004	**Sept. 24, 2004**	**June 25, 2004**	**Mar. 26, 2004**	Dec. 26, 2003[1]	Sept. 26, 2003[2]	June 27, 2003[3]	Mar. 28, 2003
Total Revenues	**$ 9,617**	**$ 7,553**	**$ 7,334**	**$ 7,963**	$ 6,666	$ 6,843	$ 7,296	$ 6,903
Interest Expense	**3,728**	**2,730**	**2,084**	**1,902**	1,813	1,855	2,044	2,128
Net Revenues	**5,889**	**4,823**	**5,250**	**6,061**	4,853	4,988	5,252	4,775
Non-Interest Expenses	**4,337**	**3,615**	**3,864**	**4,371**	3,292	3,579	3,908	3,869
Earnings Before Income Taxes	**1,552**	**1,208**	**1,386**	**1,690**	1,561	1,409	1,344	906
Income Tax Expense	**359**	**286**	**316**	**439**	346	404	370	264
Net Earnings	**$ 1,193**	**$ 922**	**$ 1,070**	**$ 1,251**	$ 1,215	$ 1,005	$ 974	$ 642
Earnings Per Common Share:								
Basic	**$ 1.31**	**$ 1.01**	**$ 1.15**	**$ 1.33**	$ 1.32	$ 1.10	$ 1.08	$ 0.71
Diluted	**$ 1.19**	**$ 0.93**	**$ 1.05**	**$ 1.21**	$ 1.19	$ 1.00	$ 0.99	$ 0.67

1 Includes after-tax net recoveries related to September 11 of $42 million and net benefits from restructuring and other charges of $3 million.

2 Includes after-tax net recoveries related to September 11 of $13 million.

3 Includes after-tax net recoveries related to September 11 of $36 million.

Dividends Per Common Share

(declared and paid)

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
2004	**$ .16**	**$ .16**	**$ .16**	**$ .16**
2003	$ .16	$ .16	$ .16	$ .16

With the exception of regulatory restrictions on subsidiaries' abilities to pay dividends, there are no restrictions on ML & Co.'s present ability to pay dividends on common stock, other than ML & Co.'s obligation to make payments on its preferred stock and TOPrS[SM], and the governing provisions of the Delaware General Corporation Law. Certain subsidiaries' ability to declare dividends may also be limited. See Note 15 to the Consolidated Financial Statements.

Stockholder Information

Consolidated Transaction Reporting System prices for ML & Co. common stock for the specified calendar quarters are noted below.

(at calendar period-end)

	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
	High	Low	High	Low	High	Low	High	Low
2004	**$ 64.89**	**$ 56.97**	**$ 60.74**	**$ 51.35**	**$ 54.32**	**$ 47.35**	**$ 61.16**	**$ 50.01**
2003	$ 43.75	$ 30.75	$ 49.20	$ 35.30	$ 57.50	$ 45.83	$ 60.47	$ 53.85

The approximate number of holders of record of ML & Co. common stock as of February 28, 2005 was 19,065. As of February 28, 2005, the closing price of ML & Co. common stock as reported on the New York Stock Exchange was $58.58.

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MERRILL LYNCH & CO., INC.

Executive Offices

Merrill Lynch & Co., Inc.
4 World Financial Center
New York, New York 10080

Common Stock

Exchange Listings

The common stock of Merrill Lynch (trading symbol MER) is listed on the New York Stock Exchange, Chicago Stock Exchange, Pacific Exchange, Euronex Paris S.A., London Stock Exchange and Tokyo Stock Exchange.

Transfer Agent and Registrar

Wells Fargo Bank, N.A. is the recordkeeping transfer agent for Merrill Lynch & Co., Inc. common stock. Questions from registered shareholders on dividends, lost or stolen certificates, the transfer of their physical stock certificates, changes of legal or dividend addresses and other matters relating to registered shareholder status should be directed to:
Wells Fargo Bank, N.A.
Shareowner Services
161 North Concord Exchange
South St. Paul, MN 55075
1-888-460-7641

Preferred Stock

Exchange Listing

Depositary Shares representing 1/1200 of a share of Floating Rate Non-Cumulative Preferred Stock, Series 1, are listed on the New York Stock Exchange.

Transfer Agent and Registrar

JP Morgan Chase Bank
4 New York Plaza, 15th Floor
New York, NY 10004
Attn: Institutional Trust Services

Form 10-K Annual Report for 2004

This Annual Report of Merrill Lynch & Co., Inc. contains much of the financial information that will be included in the 2004 Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission. For a copy of Merrill Lynch's 2004 Annual Report on Form 10-K (including financial statements and financial schedules but excluding other exhibits), visit our Investor Relations website at www.ir.ml.com or write to Judith A. Witterschein, Corporate Secretary, Merrill Lynch & Co., Inc., 222 Broadway, 17th Floor, New York, NY 10038-2510.

Equal Employment Opportunity

Merrill Lynch is fully committed to Equal Employment Opportunity and to attracting, retaining, developing and promoting the most qualified employees regardless of race, national origin, religion, sexual orientation, gender, age, disability or veteran status or any other characteristic prohibited by state or local law. For more information, write to Margot Milberg, Vice President, Compliance Programs and Affirmative Action, 4 World Financial Center, 18th Floor, New York, NY 10080.

Design: Sequel Studio, New York **Principal Photography:** Peter Ross **Additional Photography:** Dan Borris, Peter Freed

Charitable Contributions

A summary of Merrill Lynch's charitable contributions is available on our Global Philanthropy website at www.ml.com/philanthropy or upon written request to Judith A. Witterschein, Corporate Secretary, Merrill Lynch & Co., Inc., 222 Broadway, 17th Floor, New York, NY 10038-2510.

Annual Meeting

The 2005 Annual Meeting of Merrill Lynch & Co., Inc. shareholders will take place at the Harrison Conference Center & Hotel-Princeton Forrestal Center, 900 Scudders Mill Road, Plainsboro, New Jersey. The meeting is scheduled for Friday, April 22, 2005, at 9:30 a.m.

Corporate Governance

Merrill Lynch has long adhered to best practices in corporate governance in fulfillment of its responsibilities to shareholders. Its practices align management and shareholder interests. Highlights of our corporate governance practices include:

- A Board of Directors composed of eleven directors—ten of whom are independent—and Board Committees composed solely of independent directors
- Corporate Governance Guidelines that set forth specific criteria for director qualifications, Board and Board Committee composition, director responsibilities, orientation and education requirements and annual Board self-evaluation
- Director Independence Standards adopted by the Board of Directors to form the basis of director independence determinations required by NYSE rules
- Charters for each of our Board Committees reflecting current best corporate governance practices
- Guidelines for Business Conduct adopted by the Board of Directors as our code of ethics for our directors, officers and employees and supplemented by our Code of Ethics for Financial Professionals
- Designation of four Audit Committee members as audit committee financial experts in accordance with SEC regulations
- A formal disclosure committee composed of senior officers for the purpose of implementing, monitoring and evaluating our disclosure controls and procedures

Merrill Lynch's Corporate Governance Guidelines, Director Independence Standards, charters for our Board Committees, Guidelines for Business Conduct and Code of Ethics for Financial Professionals are available on our Investor Relations website at www.ir.ml.com. Shareholders may obtain copies of these materials, free of charge, upon written request to Judith A. Witterschein, Corporate Secretary, Merrill Lynch & Co., Inc., 222 Broadway, 17th Floor, New York, NY 10038-2510.

Merrill Lynch has included as exhibits to its Annual Report on Form 10-K for the 2004 fiscal year filed with the Securities and Exchange Commission certificates of its Chief Executive Officer and Chief Financial Officer certifying the quality of Merrill Lynch's public disclosure. Merrill Lynch has submitted to each of the New York Stock Exchange and the Pacific Stock Exchange a certificate of its Chief Executive Officer certifying that he is not aware of any violation by Merrill Lynch of their corporate governance listing standards.

www.ml.com

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Merrill Lynch & Co., Inc.
4 World Financial Center
New York, NY 10080
www.ml.com

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Exhibit 21

Subsidiaries of the Registrant

The following are subsidiaries of ML & Co. as of February 22, 2005 and the states or jurisdictions in which they are organized. Indentation indicates the principal parent of each subsidiary. Except as otherwise specified, in each case ML & Co. owns, directly or indirectly, at least 99% of the voting securities of each subsidiary. The names of particular subsidiaries have been omitted because, considered in the aggregate as a single subsidiary, they would not constitute, as of the end of the year covered by this report, a "significant subsidiary" as that term is defined in Rule 1.02(w) of Regulation S-X under the Securities Exchange Act of 1934.

Name	State or Jurisdiction of Entity
Merrill Lynch & Co., Inc.	Delaware
Merrill Lynch, Pierce, Fenner & Smith Incorporated[1]	Delaware
Merrill Lynch Life Agency Inc.[2]	Washington
Merrill Lynch Professional Clearing Corp.[3]	Delaware
Merrill Lynch Capital Services, Inc.	Delaware
Merrill Lynch Commodities, Inc.	Delaware
Merrill Lynch Commodities (Europe) Holdings Limited	England
Merrill Lynch Commodities (Europe) Limited	England
Merrill Lynch Commodities (Europe) Trading Limited	England
Merrill Lynch Commodities GmbH	Germany
Merrill Lynch Government Securities, Inc.	Delaware
Merrill Lynch Money Markets Inc.	Delaware
Merrill Lynch Group, Inc.	Delaware
Investor Protection Insurance Company	Vermont
Merrill Lynch Credit Reinsurance Limited	Bermuda
FAM Distributors, Inc.	Delaware
Merrill Lynch Investment Managers Group Limited[4]	England
Merrill Lynch Investment Managers (Channel Island) Limited[4]	England
Merrill Lynch Investment Managers (Dublin) Limited[4]	Ireland
Merrill Lynch Investment Managers Limited (Australia)[4]	Australia
Merrill Lynch Pensions Limited	England
Merrill Lynch Investment Managers (Isle of Man) Holdings Limited[4]	Isle of Man
Merrill Lynch Fund Managers (Isle of Man) Limited	Isle of Man
Merrill Lynch Investment Managers Holdings Limited	England
Merrill Lynch Investment Managers Limited	England
Merrill Lynch Fund Managers Limited	England
Merrill Lynch Investment Managers Società di Gestione del Risparmio S.p.A.	Italy
Merrill Lynch Investment Managers International Limited	England

1 Also conducts business under the name "Merrill Lynch & Co."

2 Similarly named affiliates and subsidiaries that engage in the sale of insurance and annuity products are incorporated in various other jurisdictions.

3 The preferred stock of the corporation is owned by an unaffiliated group of investors.

4 Held through several intermediate holding companies.

Princeton Services, Inc.	Delaware
Fund Asset Management, L.P.[5]	Delaware
IQ Investment Advisors LLC	Delaware
Merrill Lynch Investment Managers, L.P.[5]	Delaware
Merrill Lynch Investment Managers, LLC	Delaware
Merrill Lynch Alternative Investments LLC	Delaware
Princeton Administrators, L.P.[5]	Delaware
Merrill Lynch Bank & Trust Co.	New Jersey
Financial Data Services, Inc.	Florida
ML Mortgage Holdings Inc.	Delaware
Merrill Lynch Insurance Group, Inc.	Delaware
Merrill Lynch Life Insurance Company	Arkansas
ML Life Insurance Company of New York	New York
Roszel Advisors, LLC	Delaware
Merrill Lynch International Finance Corporation	New York
Merrill Lynch International Bank Limited	England
Majestic Acquisitions Limited	England
Mortgage Holdings Limited	England
Mortgages PLC	England
Genesis Home Loans PLC	England
Mortgages 1 Limited	England
Merrill Lynch Bank (Suisse) S.A.	Switzerland
MLBS Fund Management S.A.	Switzerland
Merrill Lynch Group Holdings Limited	Ireland
Merrill Lynch Capital Markets Bank Limited	Ireland
Merrill Lynch Diversified Investments, Inc.	Delaware
Merrill Lynch Credit Products, L.L.C.	Delaware
Merrill Lynch Mortgage Capital Inc.	Delaware
Merrill Lynch Mortgage Lending, Inc.	Delaware
Wilshire Credit Corporation	Delaware
Merrill Lynch Trust Company, FSB	Federal
MLDP Holdings, Inc.	Delaware
Merrill Lynch Derivatives Products AG	Switzerland
ML IBK Positions, Inc.	Delaware
Merrill Lynch PCG, Inc.	Delaware
Merrill Lynch Capital Corporation	Delaware
ML Leasing Equipment Corp.[6]	Delaware
Merrill Lynch Canada Holdings Company	Nova Scotia
Merrill Lynch Canada Finance Company	Nova Scotia
Merrill Lynch & Co., Canada Ltd.	Ontario
Merrill Lynch Financial Assets Inc.	Canada
Merrill Lynch Canada Inc.	Canada

5 Princeton Services, Inc. is the general partner and ML & Co. is the limited partner of these partnerships.

6 This corporation has 31 direct and indirect subsidiaries operating in the United States and serving as either general partners or associate general partners of limited partnerships

Merrill Lynch Bank USA	Utah
MLBUSA Funding Corporation	Delaware
Merrill Lynch Business Financial Services Inc.[7]	Delaware
Merrill Lynch Credit Corporation	Delaware
Merrill Lynch NJ Investment Corporation	New Jersey
Merrill Lynch Utah Investment Corporation	Utah
Merrill Lynch Community Development Company, LLC	New Jersey
Merrill Lynch Commercial Finance Corp.	Delaware
Merrill Lynch Private Finance Inc.	Delaware
Merrill Lynch International Incorporated	Delaware
Merrill Lynch Futures (Hong Kong) Limited	Hong Kong
Merrill Lynch Taiwan Limited	Taiwan
Merrill Lynch International Bank	Federal
Merrill Lynch Reinsurance Solutions LTD	Bermuda
Merrill Lynch (Australasia) Pty Limited	New South Wales, Australia
Merrill Lynch Finance (Australia) Pty Limited	Victoria, Australia
Merrill Lynch Markets (Australia) Pty Limited	New South Wales, Australia
Merrill Lynch Private (Australia) Limited	Victoria, Australia
Merrill Lynch Equities (Australia) Limited	Victoria, Australia
Berndale Securities Limited	Victoria, Australia
Merrill Lynch (Australia) Nominees Pty Limited	New South Wales, Australia
Merrill Lynch International (Australia) Pty Limited	New South Wales, Australia
Merrill Lynch (Australia) Futures Limited	New South Wales, Australia
Merrill Lynch Private (Australia) Limited	New South Wales, Australia
Merrill Lynch International Holdings Inc.	Delaware
PT Merrill Lynch Indonesia	Indonesia
Merrill Lynch Bank and Trust Company (Cayman) Limited	Cayman Islands, British West Indies
Institucion Financiera Externa Merrill Lynch Bank (Uruguay) S.A.	Uruguay
Merrill Lynch Española Agencia de Valores S.A.	Spain
Merrill Lynch Capital Markets AG[8]	Switzerland

7 Also conducts business under the name “Merrill Lynch Capital.”

8 Also conducts business under the names “Merrill Lynch Capital Markets S.A.” and “Merrill Lynch Capital Markets Ltd.”

Merrill Lynch Europe PLC	England
Merrill Lynch Asset Management U.K. Limited	England
Merrill Lynch Global Asset Management Limited	England
Merrill Lynch, Pierce, Fenner & Smith Limited	England
Merrill Lynch Administration Services (Luxembourg) S.à r.l.	Luxembourg
ML UK Capital Holdings[9]	England
Merrill Lynch International[10]	England
Merrill Lynch Capital Markets España S.A., S.V.	Spain
Merrill Lynch (Singapore) Pte. Ltd.[11]	Singapore
Merrill Lynch South Africa (Pty) Ltd.[12]	South Africa
Merrill Lynch Mexico, S.A. de C.V., Casa de Bolsa	Mexico
Merrill Lynch Argentina S.A.	Argentina
Merrill Lynch Pierce Fenner & Smith de Argentina S.A.F.M. y de M	Argentina
Banco Merrill Lynch de Investimentos S.A.	Brazil
Merrill Lynch S.A. Corretora de Títulos e Valores Mobiliàrios	Brazil
Merrill Lynch S.A.	Luxembourg
Merrill Lynch Europe Ltd.	Cayman Islands, British West Indies
Merrill Lynch France S.A.S.	France
Merrill Lynch Capital Markets (France) S.A.S.	France
Merrill Lynch, Pierce, Fenner & Smith SAS	France
Merrill Lynch (Asia Pacific) Limited	Hong Kong
Merrill Lynch Far East Limited	Hong Kong
Merrill Lynch Japan Securities Co., Ltd.	Japan
Merrill Lynch Japan Finance Co., Ltd.	Japan
Herzog, Heine, Geduld, LLC	Delaware
Merrill Lynch Financial Markets Inc.	Delaware

9 Held through intermediate subsidiaries.

10 Partially owned by another indirect subsidiary of ML & Co

11 Held through intermediate subsidiaries.

12 Held through intermediate subsidiaries.

Exhibit 23

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the following Registration Statements of Merrill Lynch & Co., Inc. and subsidiaries ("Merrill Lynch") of our reports dated March 2, 2005, relating to the consolidated financial statements of Merrill Lynch, the related financial statement schedule, management's report of the effectiveness of internal control over financial reporting, the information set forth in Exhibit 12 under the captions "Ratio of Earnings to Fixed Charges" and "Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends," and the information set forth in the "Selected Financial Data" table under the captions "Results of Operations," "Financial Position" and "Common Share Data," appearing in and incorporated by reference in this Annual Report on Form 10-K of Merrill Lynch for the year ended December 31, 2004.

Filed on Form S-8:

Registration Statement No. 33-41942 (1986 Employee Stock Purchase Plan)

Registration Statement No. 33-17908 (Incentive Equity Purchase Plan)

Registration Statement No. 33-33336 (Long-Term Incentive Compensation Plan)

Registration Statement No. 33-51831 (Long-Term Incentive Compensation Plan)

Registration Statement No. 33-51829 (401(k) Savings and Investment Plan)

Registration Statement No. 33-54154 (Non-Employee Directors' Equity Plan)

Registration Statement No. 33-54572 (401(k) Savings and Investment Plan (Puerto Rico))

Registration Statement No. 33-56427 (Amended and Restated 1994 Deferred Compensation Plan for a Select Group of Eligible Employees)

Registration Statement No. 33-55155 (1995 Deferred Compensation Plan for a Select Group of Eligible Employees)

Registration Statement No. 33-60989 (1996 Deferred Compensation Plan for a Select Group of Eligible Employees)

Registration Statement No. 333-00863 (401(k) Savings & Investment Plan)

Registration Statement No. 333-09779 (1997 Deferred Compensation Plan for a Select Group of Eligible Employees)

Registration Statement No. 333-13367 (Restricted Stock Plan for Former Employees of Hotchkis and Wiley)

Registration Statement No. 333-15009 (1997 KECALP Deferred Compensation Plan for a Select Group of Eligible Employees)

Registration Statement No. 333-17099 (Deferred Unit and Stock Unit Plan for Non-Employee Directors)

Registration Statement No. 333-18915 (Long-Term Incentive Compensation Plan for Managers and Producers)

Registration Statement No. 333-32209 (1998 Deferred Compensation Plan for a Select Group of Eligible Employees)

Registration Statement No. 333-33125 (Employee Stock Purchase Plan for Employees of Merrill Lynch Partnerships)

Registration Statement No. 333-41425 (401(k) Savings & Investment Plan)

Registration Statement No. 333-56291 (Long-Term Incentive Compensation Plan for Managers and Producers)

Registration Statement No. 333-60211 (1999 Deferred Compensation Plan for a Select Group of Eligible Employees)

Registration Statement No. 333-62311 (Replacement Options; Midland Walwyn Inc.)

Registration Statement No. 333-85421 (401(k) Savings and Investment Plan)

Registration Statement No. 333-85423 (2000 Deferred Compensation Plan For a Select Group of Eligible Employees)

Registration Statement No. 333-92663 (Long-Term Incentive Compensation Plan for Managers and Producers)

Registration Statement No. 333-44912 (2001 Deferred Compensation Plan for a Select Group of Eligible Employees)

Registration Statement No. 333-64676 (1986 Employee Stock Purchase Plan)

Registration Statement No. 333-64674 (Long-Term Incentive Compensation Plan for Managers and Producers)

Registration Statement No. 333-68330 (2002 Deferred Compensation Plan for a Select Group of Eligible Employees)

Registration Statement No. 333-99105 (2003 Deferred Compensation Plan for a Select Group of Eligible Employees)

Registration Statement No. 333-108296 (2004 Deferred Compensation Plan for a Select Group of Eligible Employees)

Registration Statement No. 333-109236 (Employee Stock Compensation Plan)

Registration Statement No. 333-118615 (2005 Deferred Compensation Plan for a Select Group of Eligible Employees)

Filed on Form S-3:

Debt Securities, Warrants, Common Stock, Preferred Securities, and/or Depositary Shares:

Registration Statement No. 33-54218

Registration Statement No. 2-78338

Registration Statement No. 2-89519

Registration Statement No. 2-83477

Registration Statement No. 33-03602

Registration Statement No. 33-17965

Registration Statement No. 33-27512

Registration Statement No. 33-33335

Registration Statement No. 33-35456

Registration Statement No. 33-42041

Registration Statement No. 33-45327

Registration Statement No. 33-45777

Registration Statement No. 33-49947

Registration Statement No. 33-51489

Registration Statement No. 33-52647

Registration Statement No. 33-55363

Registration Statement No. 33-60413

Registration Statement No. 33-61559

Registration Statement No. 33-65135

Registration Statement No. 333-13649

Registration Statement No. 333-16603

Registration Statement No. 333-20137

Registration Statement No. 333-25255

Registration Statement No. 333-28537

Registration Statement No. 333-42859

Registration Statement No. 333-44173

Registration Statement No. 333-59997

Registration Statement No. 333-68747

Registration Statement No. 333-38792

Registration Statement No. 333-52822

Registration Statement No. 333-83374

Registration Statement No. 333-97937

Registration Statement No. 333-105098

Registration Statement No. 333-109802

Registration Statement No. 333-122639

Medium Term Notes:

Registration Statement No. 2-96315

Registration Statement No. 33-03079

Registration Statement No. 33-05125

Registration Statement No. 33-09910

Registration Statement No. 33-16165

Registration Statement No. 33-19820

Registration Statement No. 33-23605

Registration Statement No. 33-27549

Registration Statement No. 33-38879

Other Securities:

Registration Statement No. 333-02275 (Long-Term Incentive Compensation Plan)

Registration Statement No. 333-24889 (Long-Term Incentive Compensation Plan, and Long-Term Incentive Compensation Plan for Managers and Producers)

Registration Statement No. 333-36651 (Hotchkis and Wiley Resale)

Registration Statement No. 333-59263 (Exchangeable Shares of Merrill Lynch & Co., Canada Ltd. re: Midland Walwyn Inc.)

Registration Statement No. 333-67903 (Howard Johnson & Company Resale)

Registration Statement No. 333-45880 (Herzog, Heine, Geduld, Inc. Resale)

/s/ Deloitte & Touche LLP

New York, New York
March 15, 2005

Exhibit 31.1

CERTIFICATION

I, E. Stanley O'Neal, certify that:

1. I have reviewed this annual report on Form 10-K for the fiscal year ended December 31, 2004 of Merrill Lynch & Co., Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of this annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ E. Stanley O'Neal

E. Stanley O'Neal
Chairman of the Board and Chief Executive Officer

Dated: March 15, 2005

Exhibit 31.2

CERTIFICATION

I, Ahmass L. Fakahany, certify that:

1. I have reviewed this annual report on Form 10-K for the fiscal year ended December 31, 2004 of Merrill Lynch & Co., Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of this annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Ahmass L. Fakahany

Ahmass L. Fakahany
Executive Vice President and Chief Financial Officer

Dated: March 15, 2005

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Merrill Lynch & Co., Inc. (the "Company") on Form 10-K for the period ended December 31, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, E. Stanley O'Neal, Chairman of the Board and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ E. Stanley O'Neal

E. Stanley O'Neal
Chairman of the Board and Chief Executive Officer

Dated: March 15, 2005

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Merrill Lynch & Co., Inc. (the "Company") on Form 10-K for the period ended December 31, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Ahmass L. Fakahany, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Ahmass L. Fakahany

Ahmass L. Fakahany
Executive Vice President and Chief Financial Officer

Dated: March 15, 2005

Exhibit 99.1

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Merrill Lynch & Co., Inc.:

We have audited the consolidated financial statements of Merrill Lynch & Co., Inc. and subsidiaries ("Merrill Lynch") as of December 31, 2004 and December 26, 2003, and for each of the three years in the period ended December 31, 2004, and have issued our report thereon dated March 2, 2005. Such consolidated financial statements and our report thereon are included and incorporated by reference in this Annual Report on Form 10-K.

We have also previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the restated consolidated balance sheet of Merrill Lynch as of December 27, 2002, and the related restated consolidated statements of earnings, changes in stockholders' equity, comprehensive income and cash flows for the year ended December 28, 2001 (none of which are presented herein); and we expressed unqualified opinions on those consolidated financial statements. (Our report on these financial statements included explanatory paragraphs for the change in accounting method in 2002 for goodwill amortization to conform to Statement of Financial Accounting Standards ("SFAS") No. 142, *Goodwill and Other Intangible Assets*, for the change in accounting method in 2004 for stock-based compensation to conform to SFAS No. 123, *Accounting for Stock-Based Compensation*, as amended by SFAS No. 148, *Accounting for Stock-Based Compensation – Transition and Disclosure*, by retroactively restating its 2003, 2002 and 2001 consolidated financial statements, and for the restatement to correct the accounting for certain retail account fees.)

We have also previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Merrill Lynch as of December 28, 2001 and December 29, 2000, and the related consolidated statements of earnings, changes in stockholders' equity, comprehensive income and cash flows for the year ended December 29, 2000 prior to restatement for the adoption of SFAS No. 123, as amended by SFAS No. 148, and the restatement related to the accounting for certain retail account fees (none of which are presented herein); and we expressed unqualified opinions on those consolidated financial statements. We also audited the adjustments relating to the restatements related to stock-based compensation and the accounting for certain retail account fees that were applied to restate the consolidated balance sheets of Merrill Lynch as of December 28, 2001 and December 29, 2000, and the related consolidated statements of earnings for the year ended December 29, 2000.

In our opinion, the information set forth in Exhibit 12 under the captions "Ratio of Earnings to Fixed Charges" and "Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends" for each of the five years in the period ended December 31, 2004, included and incorporated by reference in this Annual Report on Form 10-K, is fairly stated, in all material respects, in relation to the consolidated financial statements from which it has been derived.

/s/ Deloitte & Touche LLP

New York, New York
March 2, 2005

Exhibit 99.2

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Merrill Lynch & Co., Inc.:

We have audited the consolidated financial statements of Merrill Lynch & Co., Inc. and subsidiaries ("Merrill Lynch") as of December 31, 2004 and December 26, 2003, and for each of the three years in the period ended December 31, 2004, and have issued our report thereon dated March 2, 2005. Such consolidated financial statements and our report thereon are included and incorporated by reference in this Annual Report on Form 10-K.

We have also previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the restated consolidated balance sheet of Merrill Lynch as of December 27, 2002, and the related restated consolidated statements of earnings, changes in stockholders' equity, comprehensive income and cash flows for the year ended December 28, 2001 (none of which are presented herein); and we expressed unqualified opinions on those consolidated financial statements. (Our report on these financial statements included explanatory paragraphs for the change in accounting method in 2002 for goodwill amortization to conform to Statement of Financial Accounting Standards ("SFAS") No. 142, *Goodwill and Other Intangible Assets*, for the change in accounting method in 2004 for stock-based compensation to conform to SFAS No. 123, *Accounting for Stock-Based Compensation*, as amended by SFAS No. 148, *Accounting for Stock-Based Compensation – Transition and Disclosure*, by retroactively restating its 2003, 2002 and 2001 consolidated financial statements, and for the restatement to correct the accounting for certain retail account fees.)

We have also previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Merrill Lynch as of December 28, 2001 and December 29, 2000, and the related consolidated statements of earnings, changes in stockholders' equity, comprehensive income and cash flows for the year ended December 29, 2000 prior to restatement for the adoption of SFAS No. 123, as amended by SFAS No. 148, and the restatement related to the accounting for certain retail account fees (none of which are presented herein); and we expressed unqualified opinions on those consolidated financial statements. We also audited the adjustments relating to the restatements related to stock-based compensation and the accounting for certain retail account fees that were applied to restate the consolidated balance sheets of Merrill Lynch as of December 28, 2001 and December 29, 2000, and the related consolidated statements of earnings for the year ended December 29, 2000.

In our opinion, the information set forth in the "Selected Financial Data" table under the captions "Results of Operations," "Financial Position" and "Common Share Data," included in the Merrill Lynch 2004 Annual Report to Shareholders and included and incorporated by reference in this Annual Report on Form 10-K, is fairly stated, in all material respects, in relation to the consolidated financial statements from which it has been derived.

/s/ Deloitte & Touche LLP

New York, New York
March 2, 2005

Exhibit 99.3

Revised: January 2005

MERRILL LYNCH & CO., INC.

AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

CHARTER

I. Purpose

The Audit Committee (the "Committee") shall be appointed by the Board of Directors (the "Board" or "Board of Directors") of Merrill Lynch & Co., Inc. (together with its affiliates, the "Corporation") to:

- Assist the Board in fulfilling its oversight responsibility relating to the:
  - A. Preparation and integrity of the Corporation's financial statements and oversight of related disclosure matters;
  - B. Qualifications, independence and performance of, and the Corporation's relationship with, the independent auditor;
  - C. Performance of the Corporation's internal audit function;
  - D. Performance of the Corporation's risk management function; and
  - E. The Corporation's compliance with legal and regulatory requirements.
- Provide the report required by the rules of the Securities Exchange Commission (the "Commission") to be included in the Corporation's annual proxy statement.

II. Membership

The Committee's membership shall be determined by the Board of Directors on the recommendation of the Nominating and Corporate Governance Committee and shall consist of at least three (3) Board members. The Committee members shall meet the requirements for independence, experience and expertise set forth in the applicable laws and the regulations of the Commission and the New York Stock Exchange. In that regard, the Committee shall endeavor to have at least one member who either meets the Commission's definition of "audit committee financial expert" or who, in the business judgment of the Board, is capable of serving the functions expected of such financial expert. The Board of Directors, upon the recommendation of the Nominating and Corporate Governance Committee, shall appoint the Chair of the Committee.

Service on the Committee requires a significant time commitment from its members. In determining whether a committee member is able to meet the significant time commitment, the Board will take into consideration the other obligations of such member, including full-time employment, service on other boards of directors and audit committees.

III. Meetings and Reports

The Committee shall meet as frequently as it determines, but not less frequently than six times per year. The Chair of the Committee, or any two members of the Committee, may call meetings of the Committee. Meetings of the Committee may be held telephonically.

The Chair shall preside at all sessions of the Committee at which he or she is present and shall set the agendas for Committee meetings. All members of the Board of Directors are free to suggest items for inclusion in the agenda for the Committee's meetings. The agenda and information concerning the business to be conducted at each Committee meeting shall, to the extent practical, be communicated to the members of the Committee sufficiently in advance of each meeting to permit meaningful review.

The Committee shall meet periodically in separate private sessions with management, the internal auditors, the independent auditor and the General Counsel. The Committee may request any officer or employee of the Corporation or the Corporation's outside counsel or independent auditor to attend a meeting of the Committee or to meet with any member of, or advisers to, the Committee.

The Committee shall report regularly to the Board with respect to such matters that are within the Committee's responsibilities and with respect to such recommendations as the Committee may deem appropriate. The report to the Board may take the form of an oral report by the Chair or by any other member designated by the Committee to make such report. The Committee shall maintain minutes or other records of meetings and activities of the Committee.

The Committee shall provide the report of the Committee to be contained in the Corporation's annual proxy statement, as required by the rules of the Commission.

IV. <u>Authority</u>

The Committee shall perform the following functions and may carry out additional functions and adopt additional policies and procedures in furtherance of the purpose of the Committee outlined in Section I of this Charter, as may be appropriate in light of changing business, legislative, regulatory, or other conditions, or as may be delegated to the Committee by the Board of Directors from time to time.

A. <u>Financial Statements and Disclosure Matters</u>

1. The Committee shall meet to review and discuss with management and the independent auditor the Corporation's annual audited and quarterly consolidated financial statements, including the disclosures contained in the Corporation's Annual Report on Form 10-K ("Form 10-K") and its Quarterly Reports on Form 10-Q ("Form 10-Q"), under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations." After review of the annual audited consolidated financial statements and the reports and discussions required by Sections A. 7. and B. 5. of this Charter, the Committee shall determine whether to recommend to the Board of Directors that such financial statements be included in the Corporation's Form 10-K.

2. The Committee shall be advised of (i) the execution by the Corporation's Chief Executive Officer and Chief Financial Officer of the certifications required to accompany the filing of the Form 10-K and the Forms 10-Q, and (ii) any other information required to be disclosed to it in connection with the filing of such certifications.

3. The Committee shall discuss with management and the independent auditor any significant financial reporting issues and judgments made in connection with the preparation of the Corporation's financial statements, including any significant changes in the Corporation's selection or application of accounting principles, any major issues as to the adequacy and clarity of the Corporation's disclosure procedures.

4. The Committee shall review and discuss the quarterly reports from the independent auditor on:

   (a) All critical accounting policies and practices to be used.

   (b) All alternative treatments of financial information within generally accepted accounting principles that have been discussed with management, ramifications of the use of such alternative disclosures and treatments, and the treatment recommended by the independent auditor.

   (c) Other material written communications between the independent auditor and management, such as any management letter or schedule of unadjusted differences.

5. The Committee shall discuss with management the Corporation's earnings press releases, including the use of "pro forma" or "adjusted" non-GAAP information, and financial information and earnings guidance provided to analysts and rating agencies. Such discussion may be conducted generally (<u>i.e.</u>, by discussing the types of information to be disclosed and the types of presentations to be made). The Committee may delegate responsibility for the review of the quarterly earnings press release to a member of the Committee.

6. The Committee shall discuss with management and the independent auditor the effect of regulatory and accounting initiatives as well as off-balance sheet structures on the Corporation's financial statements.

7. The Committee shall discuss with the independent auditor the matters required to be discussed by Statement on Auditing Standards No. 61 relating to the conduct of the audit, including any difficulties encountered in the course of the audit work, any restrictions on the scope of activities or access to requested information, and any significant disagreements with management.

B. Oversight of the Corporation's Relationship with the Independent Auditor

1. The Committee shall have the sole authority to appoint or replace the independent auditor. The Committee shall be directly responsible for the compensation, retention and oversight of the work of the independent auditor (including resolution of disagreements between management and the independent auditor regarding financial reporting) for the purposes of preparing or issuing an audit report or related work (including audit-related review or attest services). The independent auditor shall report directly to the Committee.

2. The Committee shall review and approve in advance the annual plan and scope of work of the independent auditor, including staffing of the audit, and shall review with the independent auditor any audit-related concerns and management's response.

3. The Committee shall pre-approve all auditing services and all permitted non-audit services (including the fees and terms thereof) to be performed for the Corporation by the independent auditor, to the extent required by law, according to established procedures. The Committee may delegate to one or more Committee members, the authority to grant pre-approvals for audit and permitted non-audit services to be performed for the Corporation by the independent auditor, provided that decisions of such members to grant pre-approvals shall be presented to the full Committee at its next regularly scheduled meeting.

4. The Committee shall review and evaluate the experience, qualifications and performance of the senior members of the independent auditor team on an annual basis. As part of such evaluation, the Committee shall review with the lead audit partner whether any of the audit team members receive any discretionary compensation from the audit firm with respect to procurement or performance of any services, other than audit, review or attest services, by the independent auditor.

5. The Committee shall obtain and review a report from the independent auditor at least annually addressing (i) the independent auditor's internal quality-control procedures, (ii) any material issues raised by the most recent internal quality-control review or peer review of the firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the firm, (iii) any steps taken to deal with any such issues, and (iv) all relationships between the independent auditor and the Corporation (in order to assess if the provision of permitted non-audit services is compatible with maintaining the auditor's independence, taking into account the opinions of management and the internal auditors.)

6. The Committee shall ensure the rotation of members of the audit engagement team, as required by law and will require that the independent auditor provide a plan for the orderly transition of audit engagement team members. The Committee shall also consider whether, in order to assure continuing auditor independence, it is appropriate to adopt a policy of rotating the independent auditing firm on a regular basis.

7. The Committee shall establish the Corporation's policies for the hiring by the Corporation of employees or former employees of the independent auditor who participated in any capacity in the audit of the Corporation.

C. Oversight of the Corporation's Internal Audit Function

1. The Committee shall review and discuss with the independent auditor the annual audit plan of the Corporate Audit Department, including responsibilities, budget and staffing, and, if appropriate, shall recommend changes.

2. The Committee shall review, as appropriate, the results of internal audits and shall discuss such matters with the Corporate Audit Department and with the Corporation's management, including significant reports to management prepared by the Corporate Audit Department and management's responses.

3. The Committee shall participate in the appointment and performance evaluation of the Corporation's Head of the Corporate Audit Department. The Committee shall also review the adequacy of resources to support the internal audit function, and, if appropriate, recommend changes.

4. The Committee shall discuss, as appropriate, the adequacy of the Corporation's internal controls with the Corporate Audit Department, the independent auditor and management, including without limitation, reports regarding (a) significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting and (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Corporation's internal control over financial reporting. The Committee shall review

and discuss, as appropriate, any special audit steps implemented by management to address significant control deficiencies.

D. Oversight of the Corporation’s Risk Management Function

1. The Committee shall oversee the Corporation’s risk management function and shall discuss with management the major financial, legal and reputational risk exposures of the Corporation and the steps management has taken to monitor and control such exposures, including the Corporation’s risk assessment and risk management policies.

E. Oversight of the Corporation’s Compliance Function

1. The Committee shall monitor the Corporation’s compliance function, including compliance with the Corporation’s policies, and shall review with the Corporation’s General Counsel and Director of Corporate Audit the adequacy and effectiveness of the Corporation’s procedures to ensure compliance with legal and regulatory requirements.
2. The Committee shall establish procedures for the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal controls or auditing matters, and the confidential, anonymous submissions by employees of concerns regarding questionable accounting or auditing matters.
3. The Committee shall discuss with management, the Corporation’s General Counsel and the independent auditor any correspondence with regulators or governmental agencies and any published reports, which raise material issues regarding the Corporation’s financial statements or accounting policies.
4. The Committee shall discuss with the Corporation’s General Counsel legal matters that may have a material impact on the financial statements or the Corporation’s compliance policies.

V. Clarification of Committee’s Role

The Committee’s role is one of oversight. It is the responsibility of the Corporation’s management to plan and conduct audits and to prepare consolidated financial statements in accordance with generally accepted accounting principles, and it is the responsibility of the Corporation’s independent auditor to audit those financial statements. Therefore, each member of the Committee, in exercising his or her business judgment, shall be entitled to rely on the integrity of those persons and organizations within and outside the Corporation from whom he or she receives information, and on the accuracy of the financial and other information provided to the Committee by such persons or organizations. The Committee does not provide any expert or other special assurance as to the Corporation’s financial statements or any expert or professional certification as to the work of the Corporation’s independent auditor.

VI. Access to Management; Retention of Outside Advisers

A. Access to Management

The Committee shall have full, free and unrestricted access to the Corporation’s senior management and employees, and to the Corporation’s internal and independent auditors.

B. Access to Outside Advisers

The Committee has the authority to retain legal counsel, consultants, or other outside advisers, with respect to any issue or to assist it in fulfilling its responsibilities, without consulting or obtaining the approval of any officer of the Corporation.

The Corporation shall provide for appropriate funding, as determined by the Committee, for payment (i) of compensation to the independent auditor, (ii) to any advisers retained by the Committee, and (iii) of any ordinary administrative expenses of the Committee that are necessary or appropriate in carrying out the Committee’s duties.

VII. <u>Annual Evaluation; Charter Review</u>

A. Annual Self-Evaluation

The Committee shall perform an annual review and self-evaluation of the Committee’s performance, including a review of the Committee’s compliance with this Charter. The Committee shall conduct such evaluation and review in such manner as it deems appropriate and report the results of the evaluation to the entire Board of Directors.

B. Charter Review

The Committee shall review and assess the adequacy of this Charter on an annual basis, and, if appropriate, shall recommend changes to the Board of Directors for approval.